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UNEMPLOYMENT INSURANCE
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Foreword

THE widespread unemployment produced by the industrial depression of 1921, the extent of unemployment in the United States during normal years, the increasing experimentation abroad with forms of social insurance against unemployment, and the bills providing for public unemployment insurance which have been introduced into the legislatures of several states, all have combined to make the question of unemployment insurance of growing importance in this country. That unemployment is a national problem of the first order and that a broad, constructive program for dealing with it is a national need, requires no emphasis today. The conflicting social and economic points of view as to what this program should be, the varied interpretations of European experience with unemployment insurance and the prevailing vagueness of information on the situation in the United States as regards the application of public insurance to the unemployment problem, make an impartial analysis of the question highly desirable.

The purpose of the present report is to discuss the problem of the relation of public unemployment insurance to conditions in the United States, through an analysis of the theory of such insurance, an examination of European experience with its various forms and a survey of the need and basis for public unemployment insurance in the United States. Legislative projects for such insurance in this country are studied from the point of view of economic and social theory and in the light of American economic and social conditions so as to provide a basis for unbiased judgment regarding the applicability of any form of social insurance to the unemployment problem in the United States.

Realizing the burden which unemployment puts upon modern industrial society, the Board in this report wishes to emphasize the necessity for a thorough study of the character of the problem and the possibilities of meeting it in ways adapted to economic and industrial conditions in the United States, without prejudice to the principle of public insurance in so far as its need and practicability may be demonstrated.

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Unemployment Insurance in Theory and Practice

INTRODUCTION

Unemployment is an industrial problem which is both economic and social in character, world-wide in extent and of first rank in importance. Although present in some form in all periods of industrial and social development, the problem of unemployment has come to be emphasized in modern times because of its scope and because of the seriousness and far-reaching character of its effects. It is found in all industrial nations, not only in the cyclically recurring periods of economic depression, but even in times of normal business activity. It is always of sufficient importance to constitute a problem provocative of efforts toward relief and prevention.

The significance, character and extent of the unemployment problem in the United States have been outlined in a previous report by the National Industrial Conference Board.[1] In this it was estimated that in the manufacturing and mechanical industries of the country alone lack of work causes an average normal unemployment of about 1,536,000 out of a total of 12,800,000 workers in these industries. At the height of the business depression in June, 1921, it was estimated that about one-quarter of the industrial wage earners of the country, or 3,500,000 persons were idle.

It was further pointed out in the Board's report on unemployment that these conditions not only affect the economic well-being and morale of the workers, but that they react on industry and business in general, injuring the manufacturer and merchant, curtailing the buying power of the community, placing a burden on the public, and reducing the prosperity and welfare of society as a whole. Thus the problem of unemployment merits the united efforts of employers, employees and the

[1] "The Unemployment Problem." Research Report No. 43. November, 1921.

public toward understanding its causes and devising methods for its relief and reduction.

As noted in the earlier report, many methods of solving the problem of unemployment have been and are being tried by individual employers and by private and public organizations, and many others have been suggested. Prominent among the measures which have been advanced for the relief and prevention of unemployment is that of compulsory state insurance.

The application of some form of social insurance to the unemployment problem has been under discussion in the United States for several years, and efforts have been made at different times to pass laws establishing such insurance in a number of states. Experiments with unemployment insurance abroad first attracted attention to the question in the United States, and the acute unemployment situation in 1921 gave impetus to the movement for similar measures in this country. A bill providing for compulsory unemployment insurance was introduced into the legislature of Wisconsin early in 1921, at the beginning of the industrial depression. This bill, which has been under discussion and revision in legislative committee since its introduction, has attracted wide notice. Similar bills have been introduced into the legislatures of Massachusetts and Pennsylvania.[1]

On the other hand, the President, in outlining the task and scope of the unemployment conference called by him in 1921, emphasized the view that public insurance was not to be considered as a necessary or practicable measure for meeting the unemployment problem in this country, and that the attention of the conference should be concentrated rather upon the causes and extent of unemployment and the possibilities of remedy available through the work of individual employers and private or local public organizations.[2]

The question of public unemployment insurance is, therefore, a timely and highly controversial one. In order to evaluate the movement in its behalf, it is necessary to have a clear conception of the theory and problems underlying insurance in general and, specifically, insurance as applied to social problems, particularly to unemployment. It is desirable to understand the

[1]A general social insurance law including benefits for unemployment was introduced into the legislature of the State of New York in 1921 by a Socialist assemblyman, but it had no relation, apparently, to the Wisconsin bill.

[2]United States. President's Conference on Unemployment. Report, Washington, 1921, pp. 25–28.

development of this theory in the forms of unemployment insurance tried in Europe, and the results of practical experience with them. It is necessary, further, to analyze the situation in the United States and to ascertain whether conditions here are such as to make the application of some form of unemployment insurance necessary, desirable or practicable, and, if so, what form is to be preferred.

The present report, through an impartial analysis of the facts bearing on these points, attempts to provide a basis for answering the central question whether social insurance can or should be adopted as a means of meeting the unemployment problem in the United States. The first chapter outlines the theory and main questions involved in such insurance, as applied to unemployment; the following three chapters analyze the development of and practical experience with this theory, principally in Europe; the next three chapters survey this theory and these problems as related to the situation in the United States; and the final chapter summarizes the results and general conclusions to be drawn from the study.

I

THE THEORY OF UNEMPLOYMENT INSURANCE

The movement for unemployment insurance and the plans which have developed for its establishment in different countries are based on certain theoretical principles and underlying social doctrines, and have grown out of definite social conditions. It is necessary to have a clear understanding of these before the evolution of and experience with unemployment insurance in Europe can be clearly comprehended, and the relation of unemployment insurance to conditions in the United States can be properly evaluated. This chapter presents a broad survey of the underlying theory of unemployment insurance and of the main factors which are involved in the development of this theory.

The theory of unemployment insurance is based on (1) the general principles of insurance, and (2) the general doctrine of social liability or responsibility. These principles and doctrines, separately or combined, are applied in various ways and for various purposes in modern society and a description of their general character is important in order to make clear the theory of unemployment insurance.

The Organization of Relief in Society

The individual in modern society is subject to certain contingencies for the consequences of which he or his dependents may require that provision be made. Familiar circumstances of this character are death, partially or wholly disabling accidents or illness, unemployment, natural catastrophes or other chance influences like the weather. The need for relief varies with the economic, industrial and social conditions which prevail at a given time and with the position of the individual affected. These contingencies may be wholly, partly, or not at all attributable to the fault of the individual, and they may be preventable in varying degrees, either by his efforts or the efforts of others, or both. Their import is that they affect the economic status of the individual or of his dependents.

Under existing conditions, at a given time a certain portion of any social group is subject to the consequences of one or more of these unforeseen events, so that it is in need of relief to a greater or lesser degree. Effort is made, therefore, by individuals and groups, first, to prevent, if possible, the contingency from affecting them and second, to provide relief if such a condition arises.

The means of prevention and relief at hand in society to meet these contingencies are, broadly, of two kinds: (1) personal or private, such as the individual has available or his family or friends provide; and (2) cooperative, such as are put at his service by private or public organizations.

Personal or private *preventive* efforts to meet the contingencies of life are too varied for classification and overlap the cooperative efforts. They involve the morale, foresight and general psychological make-up and outlook of the individual, his education, work, personal hygiene, thrift, and public-spiritedness as expressed in his care of self and his care of others dependent on him. Cooperative preventive measures include educational systems, public and social hygiene, and legislation affecting industry and society generally in manifold ways.

Provision of *relief* after an emergency has occurred exists in society in some measure at all times. The personal care for these uncertainties is, of course, fundamental and largely unmeasurable in extent. The cooperative measures exist in many forms also. For convenience these may be divided into the general classes of (a) direct relief, such as private or public charity, medical service, homes and institutions of various kinds, and (b) indirect relief, such as private or public financial devices of one kind or another, including savings banks and insurance, the purpose of which is to provide funds to meet emergencies of various sorts.

The development of cooperative preventive or relief measures is influenced by several factors: (a) the frequency of the contingency, (b) the estimate by public opinion of its seriousness and social importance, and (c) the collective judgment as to its preventability and as to the responsibility for it. In other words, in modern society, presupposing a group opinion formulating a competent judgment regarding the need and importance of preventing or relieving the effects of an event, the institution and form of cooperative measures adopted to meet

it will be determined according to the frequency of its occurrence in the group interested and the latter's estimate of the degree of its preventability. If a contingency is frequent and extensive enough to constitute a problem, regardless of its preventability, individual efforts to prevent it or relieve its effects will tend to develop into cooperative efforts. If the degree of preventability of the contingency is high, these cooperative efforts will be aimed chiefly to reduce the frequency; if the contingency is of a relatively unpreventable character, the cooperative measures will take the form of providing relief.

The general impulse to cooperative relief or preventive measures is based on the belief that the cost to the individual of providing against the contingency, or the social cost measured by the indirect effects resulting from leaving the burden of provision or prevention to the individual, may be reduced by collective effort. The total cost to a group, for relief or preventive measures, will exceed the total benefits derived because of the cost of administration. The cost to the individual, however, is less in a cooperative enterprise than where he bears it alone, and the group as a whole benefits, directly or indirectly, by reducing the risk or relieving possible distress.

Relief and preventive measures are, generally speaking, intended only to provide for or to prevent economic loss due to uncertainties, since other losses due to them are not measurable or amenable to replacement or prevention. Such relief measures are, therefore, largely financial, involving the provision, in some form, of funds assembled and distributed either for compensation or relief, or for prevention, or for both.

Insurance as a Form of Relief and Prevention

Insurance is a cooperative financial device for meeting certain of those contingencies affecting individuals or groups, which result in loss to them. It is a method of making provision against losses arising from contingencies to which all are subject in varying degrees, through contributions made by themselves directly or by others to a group fund. These contributions are based on estimates of the probability that the contingency will affect the group insured, and are made in proportion to the amount of benefit the group is entitled to receive if they are so affected. Insurance is a cooperative measure, in

that the cost and benefits are distributed among a group rather than assumed and received by one individual. The cost may be paid wholly by the group receiving the benefit, or partly or wholly by a different group.

The feature which distinguishes insurance from other cooperative financial provisions for relief in emergencies is that the amount and distribution of the cost and of the benefits, and the relation between contributions and benefits, are determined in some measure by the mathematical law of probability applied to the contingency affecting the group and that the persons subject to the risk are promised definite relief if the contingency occurs. Savings banks are cooperative financial devices which afford relief to the depositors for contingencies which affect them, but the acceptance of the conditions of deposit and withdrawal are left to the discretion of the individual and are independent of the probability of the need for relief. Funds of provident loan or fraternal societies are regulated by rules only loosely related to the risks to which contributors are subject. Public or private charitable funds are not established with any definite relation to the probable payments to be made to individuals. Such financial schemes are based on the hope that less will have to be paid out than was paid into them, rather than on the mathematically ascertained probability concerning the amount it may be necessary to pay to individuals in a given group within a given period as compensation for the loss from a given contingency, as is implied in the insurance principle.

In any cooperative relief measure in which the probability of the necessity of making payments is not safely determined or fairly constant, and for which the funds are gathered accordingly, it is obviously necessary for the effectiveness of the measure that the funds provided be as large as possible, or at least far larger than would be needed were the risk determined. Such measures are, therefore, more costly to the individuals participating in them or to the group providing the funds, than are financial provisions based on strict insurance principles; otherwise the measures become financially unsound and relief becomes inadequate.[1]

Insurance began as a cooperative financial means of providing against loss. At first the cost was relatively high, but the system

[1]Private insurance companies carrying mutual insurance policies may offset high initial cost for the insured by subsequent rebates, but unless the rate is finally determined on a fairly stable basis during the period of insurance such rebates cannot be paid.

has developed and grown by reducing the cost of protection through more accurate determination and stabilization of the risk, through the extension of its field and through the development of preventive devices for reducing the risk. As insurance is extended to include a larger and larger group, the average risk may be more accurately ascertained and the cost for the participants reduced. On the other hand, as the insurance is limited to special groups through the exclusion of exceptional and unfavorable risks, the average risk is stabilized and diminished. If, in addition, cooperative effort is made to diminish the risk through preventive measures, the cost of insurance may be still further reduced.

The economic application of insurance to any contingency implies, therefore: (a) that the risk for a given group and condition be determined as accurately as possible; (b) that the average risk be minimized and stabilized through the exclusion of unfavorable types; (c) that the risk be reduced to a minimum by preventive measures.

The strict application of the insurance principle implies that the risk can be so accurately determined and is so constant that, during a given period, the amount paid out to the beneficiaries who suffered the loss in question, plus the costs of operation, will equal the total paid in for all the participants. The application may, however, vary from this condition to one where the risk is so uncertain that the amounts paid out and those taken in, during any period, bear no constant or determinable relation to one another. In the latter circumstance the insurance becomes relatively more expensive than where this constant ratio can be maintained.

The general principles of insurance may be modified or varied in many ways, according to the contingency covered, the character of the group participating, the theories governing the distribution of the cost and the benefits, and the purpose in view. In consequence, there are many types of insurance. These may, however, be placed in two broad classes, which for convenience may be called (1) individual, and (2) social insurance.

Individual Insurance and Social Insurance

The distinction between individual insurance and social insurance lies chiefly in the character of the group participating, the principles controlling the distribution of the cost and bene-

fits, and the purpose in view. All insurance is social in the sense that it involves cooperation of a group. *Social* insurance in the narrower sense however, is, a term generally used with reference to any application of the insurance principle to contingencies affecting a group of individuals, in which (a) the purpose is not profit to the insurer, (b) those receiving the benefits pay directly only part or none of the cost, the latter being met partly or wholly by one group and the benefits distributed to another not identical group, (c) this distribution is determined by a certain social judgment regarding responsibility for the contingency and for the provision of relief against it, and (d) the insurance is established or supervised by the state.

Individual insurance is established either for commercial profit or for mutual aid and applies to all sorts of contingencies. Commercial insurance covers losses due to fire, catastrophes, weather, death, accident, sickness, old age and other special contingencies involving loss for particular individuals. Private mutual aid insurance, as a rule, covers loss due to fire, death, accident, sickness, old age or unemployment. All these forms are based more or less on strictly actuarial principles and cover all groups in society, but the cost is paid only by the beneficiaries and is assumed only as these beneficiaries feel themselves able to do so.

The cooperative financial measures undertaken by individual insurance are aimed chiefly to provide relief or compensation for loss although they lead in some cases to preventive efforts, either on the part of the insured or the insurer. The insurer may be interested in cooperative measures for reducing the risk in order to increase his profits or to make the funds more secure, and the insured may be led to endeavor to prevent the contingency if the cost of protection for him is thereby reduced. In general, however, the preventive aspect of these cooperative devices is secondary to the relief aspect. Individual insurance rests, therefore, chiefly on the motive of fear in the individual for the losses possible as a result of the contingencies to which he is subject, and stimulates him to provision for relief rather than to prevention.

Social insurance is, broadly, the result of a joining of the principle of social responsibility with the principles of insurance and the modification of the latter by the former. As developed in various countries, social insurance provides for

losses due to death, accident, sickness, old age, invalidity and unemployment. It is based to some extent on actuarial principles, but the benefits are limited to certain specified groups, and the direct cost is paid wholly or in part by some other than the beneficiary group.[1]

Individual insurance is concerned with those who desire and are able to undertake the cost of insurance, regardless of preventability of the contingency or culpability of those affected,[2] and regardless also of whether they are able to, and do, make other provision for compensation. Social insurance implies that there are certain contingencies affecting groups in modern society which are in some degree unpreventable and not the entire responsibility of those affected; that these groups are unable, without aid, to make provision for relief against these contingencies; and that, in any case, certain other groups in society or society as a whole should assume part or all of the responsibility of providing for such losses and should attempt to reduce them if possible.

The allocation of the direct cost of social insurance and of the benefits, in contrast to that of individual insurance, is determined in some measure by a social judgment as to (a) what group is able to bear the cost, and (b) what group is to be considered responsible for the contingency. It implies, therefore, that some group can not, does not or should not bear the cost of providing relief unaided; that this provision ought to be made; and that some other group or society as a whole is to be considered responsible for the provision against the contingency and for its prevention, if possible.

The principle of social responsibility not only has modified in this way the insurance character of cooperative financial relief, but it has also tended to emphasize the preventive aspect of the insurance measure. Social insurance aims in the first place to provide relief, but there is always conjoined with it, in theory, some idea of cooperative preventive effort, and often in the plan itself is embodied some intention of stimulating the groups bearing the cost or receiving the benefits, or both, to

[1]Whether the cost of social insurance, however allocated, is derived ultimately from any one group in society and is not passed on by that group and distributed over the whole, is as difficult to determine as the analogous question of the final incidence of taxation. It is a question which arises, however, wherever the cost and effects of any forms of social insurance are under consideration. See pp. 117-119.

[2]When the contingency becomes frequent and important enough to permit the calculation of the risk, private insurance does not regard the question of responsibility. Suicide, for instance, is provided for under certain conditions in most commercial life insurance.

reduce the risk. Whatever preventive character the scheme has is the result of a desire on the part of the state or the insuring group to reduce the direct cost to themselves, as well as the indirect cost to society as a whole. In general, the preventive force of social insurance is intended to operate through distributing the cost in accordance with some theory of responsibility, thereby inducing those deemed responsible to reduce the risk.

It should be noted that inasmuch as social insurance, actuated by the theory of social responsibility, restricts the provision of relief to certain groups, the average risk is often less accurately determined in relation to certain contingencies and is relatively greater for the insurer than in private insurance. Social insurance, however, since it ultimately leans for its support on society as a whole, may contemplate assuming a greater risk than can private insurance. Moreover, being influenced by other motives and principles than those of private profit, limited by the social judgment regarding the cost the group can afford to bear, social insurance is not strictly bound by the conditions necessary for individual insurance.

Social insurance, therefore, is not based, as is individual insurance on the motive of individual fear, but rather on the motive of constructive cooperative effort to reduce the loss to society accruing from the anxiety and suffering to individuals because of contingencies which they either cannot prevent or cannot provide against. As a cooperative financial relief measure, social insurance falls somewhere between pure mutual aid insurance and public charity funds, is rarely based on strictly insurance principles and frequently disregards them altogether.

From this point of view many private cooperative mutual benefit schemes, such as trade union funds, approach very closely to what has been described as social insurance, and in some countries a system of social insurance has been developed out of them, merely through the assumption by the state of part of the cost.

Unemployment Insurance

The groups for whom social insurance is usually provided are those with low incomes, or in general, the wage-earning class. Social insurance, therefore, is generally a subsidy of earnings of a special group. This subsidy is made on the assumption that

the wage of the worker, averaged over a given period, is either inadequate to enable him to provide wholly for the contingencies which reduce his earnings during that period, or that he does not so provide, if able to do so. It assumes also that these emergencies arise from conditions beyond the worker's control, and that the responsibility for their relief and prevention, and therefore the cost, should be borne partly or wholly by some other group, such as industry, or by society as a whole.

The contingencies for which social insurance is usually provided, such as accidents, sickness, invalidity, old age, unemployment and death, are, broadly speaking, all unemployment contingencies, since their importance lies in the interruption of employment and resulting income either to the individual or his dependents. Unemployment, in the strict sense, is a special form of interruption of earnings, due to lack of work, i. e., to a cause admittedly not within the control of the worker, and, therefore, not preventable by the worker. It arises out of circumstances over which society as a whole or industry may exercise some control, but of which the individual wage earner is only a victim. It is a contingency which affects especially the industrial wage earner, and particularly that class of industrial wage earner whose earnings are lowest, the unskilled class. It is frequent and extensive enough to constitute a relief and prevention problem. If social insurance is designed to provide cooperative relief or prevention in the face of circumstances against which the individual is powerless, for which only inadequate provision has been made, and the responsibility for which would appear to rest on other groups or on society as a whole, then unemployment, more than sickness, accident or dependent old age, theoretically would seem to be a contingency for which such insurance might properly supply relief.

The problems which arise, however, when it is attempted to apply social insurance principles to unemployment indicate possible reasons why such insurance has been used first to meet other contingencies, and has not been brought to bear on unemployment until relatively late in the development of a complete system of social insurance. Individual insurance itself has only recently attempted to include unemployment among the contingencies covered by it, largely because of these same problems.

In accordance with what has already been said of social insurance, the economic application of the insurance principle to unemployment requires:

(a) That the risk of unemployment for the group covered be relatively constant and definitely determinable, so that such a relation may be established between contributions and benefits that the cost to the insuring group or to society may not at any time exceed the funds available and the scheme become thereby financially unsound;

(b) That the average risk for the group covered be reduced as much as possible. If the average risk is made high through the inclusion of those whom unemployment affects more than others, or if the general conditions of industry make for an average high rate of unemployment, the cost will be increased. This leads to the further requirement,

(c) That in so far as the interruption of earnings is due to causes covered by other provisions of relief or is preventable by the worker, such as sickness, misconduct, strikes, lockouts, and, possibly, certain kinds of labor turnover, these cases of unemployment be excluded from the insurance scheme, in order to reduce the risk to a strictly unemployment contingency;

(d) That the cost, when determined on the basis of a constant risk arising from causes beyond the control of the worker, be distributed according to such an allocation of responsibility for the risk arising from other causes as would give an incentive for its further reduction.

The problems raised by unemployment insurance, therefore, are in part practical administrative insurance problems and in part problems of social theory. Whether this form of cooperative financial relief and prevention is needed and desired, and how the cost shall be distributed, are matters of social viewpoint; how the cost may be reduced, through determination and reduction of the risk, is a matter of application of the insurance principle to the unemployment contingency. It may be that unemployment is considered neither a social nor an industrial responsibility; it may be that wage earners as a group are able to provide protection for themselves in other private individual or cooperative ways; it may be considered that, as in any form of social insurance, the cost, so far as

it is paid by other than the group benefiting, is passed on or distributed over the whole of society, so that in some measure the beneficiary ultimately pays the cost, in part at least. These are questions of social theory, largely dependent on personal opinion and, therefore, controversial. They resolve themselves into the single question whether society as a whole, or any group therein, is or is not prepared to assume, in any measure, regardless of the cost, the burden of a necessary provision for a contingency affecting another single group.

Although social insurance may contemplate the possibility that the cost of providing relief may be greater for society or for the group making this provision than the direct benefits received by those protected, every form of social insurance ought to contemplate a reduction of the risk, and hence the cost, to a point where, theoretically, social insurance would be unnecessary because the provision of relief might be made through private financial cooperation among the group covered.

The problem, therefore, ultimately becomes one of deciding whether the unemployment contingency may be more effectively prevented and provided for at less cost and with more equitable distribution of the direct burden by means of public insurance, than through some other form of cooperative effort toward prevention or direct relief. This raises the specific questions:

(a) To what extent are other forms of cooperative relief or prevention available; i. e., what is the need and scope of public unemployment insurance?

(b) How strictly are insurance principles applicable to the unemployment contingency, i. e., to what extent is it possible to determine the average risk to make that risk constant by the exclusion of unfavorable risks, and to reduce the average risk to a minimum by preventive measures?

(c) Can the direct costs and benefits be distributed so as to be equitable and in accordance with the responsibility for the contingency, so as not to involve indirect additional costs to society, and so as to tend toward a reduction of the contingency?

These questions have influenced the development and forms of cooperative unemployment relief and preventive measures in all countries where such measures have been tried. The evolution of these measures indicates (1) that they have grown up

in correspondence with the increase in the frequency and seriousness of the unemployment contingency, the increasing recognition of the inadequacy of individual provision and the increasing sense of social responsibility; (2) that private cooperative preventive and financial relief measures have served as the basis for social measures; (3) that these private measures have developed into insurance measures to the extent that the cost could be diminished through reducing, stabilizing and determining the risk; (4) that social insurance as a method of cooperative prevention and financial relief has been developed out of private insurance and other relief measures just so far as the latter have proven inadequate or excessively costly by reason of inability to determine, stabilize or further reduce the risk, and also so far as the social judgment regarding the responsibility for relief and prevention has led society to assume part or all of the burden, or to distribute it over certain groups; and that, (5) finally, these social insurance measures have proven successful from the insurance point of view, if at all, to the extent that their cost has been diminished by limiting their need and scope and by determining, stabilizing and reducing the risk through maintaining, assisting or encouraging private cooperative preventive and financial relief organizations and efforts, through basing their actuarial features upon the experience of these special private measures, and supplementing them by special measures such as labor exchanges.

The next three chapters will briefly trace this development through the available experience with various forms of unemployment insurance, individual and social.

II

UNASSISTED VOLUNTARY MUTUAL BENEFIT SCHEMES

In the development of cooperative provision for relief against unemployment, three evolutionary stages are clearly discernible. These are: (a) voluntary mutual benefit schemes; (b) subsidized voluntary schemes; and (c) systems of compulsory state insurance.

Unemployment relief under one or more of these systems is very general throughout Europe.[1] Unassisted voluntary mutual benefit schemes are found in all countries; voluntary mutual benefit schemes with and without public subsidies occur in some, and in Great Britain, Italy and Russia all three are found. In a general way, the second scheme of unemployment relief seems to have developed out of the first and the third from the second, each succeeding form having been designed to remedy the defects of the preceding. In the United States, only the first stage of development has been reached and that very imperfectly.

Since one of the objects of the present report is to analyze the available experience with unemployment insurance for the purpose of determining upon the feasibility of its adoption in the United States, the discussion will follow the evolution of these three forms from voluntary, unassisted schemes of cooperative relief to compulsory state insurance.

Until about thirty years ago, the only cooperative provision for relief against unemployment was through the unassisted efforts of labor organizations, friendly societies and community funds established in certain of the countries of Europe. This rudimentary form of social insurance, which to a much lesser extent is in operation in some of the labor unions of the United States today, deserves consideration as the first form of cooperative unemployment relief based on the pooling of risks and group assumption of cost.

[1]France, Belgium, Norway, Denmark, Sweden, Russia, Italy, Switzerland, Austria, Great Britain, the Netherlands, Spain, Finland, Czecho-Slovakia, Luxemburg and many cities in Germany have unemployment insurance schemes of one sort or another, some of which have been in operation for many years.

The essence of these unassisted insurance schemes is this voluntary pooling of risks by a certain number of individuals who are subject to approximately the same loss, subscribing periodic payments to a common unemployment fund, or having a part of their organization dues assigned for this purpose, and receiving therefrom fixed rates of benefit under certain conditions. This benefit may be either a weekly payment in cash, or a grant for traveling expenses to take up or seek new work elsewhere, or a remission of organization dues. The actuarial basis may be, and usually is, unscientific, and the funds at all times are insecure.

Trade Union Benefits

This voluntary insurance against unemployment has reached its highest development in Great Britain, where, for the last two centuries, a certain proportion of wage earners have made this unassisted provision for unemployment. In 1910, the year before the adoption of compulsory insurance, 96% of the membership of all registered trade unions in Great Britain were reported to be thus insured against unemployment, and nearly 30% of the unions' total expenditures during the year were for unemployment benefits. This amounted to £904,104 ($4,403,945).[1] The average amount paid per year for unemployment benefits in the ten years 1898–1907 by the 100 principal British unions, was $1,955,444.[2] Since the adoption of compulsory insurance against unemployment in Great Britain, the number of unions paying unemployment benefits is said to have increased.[3]

The total amount spent for unemployment benefits each year has varied considerably among the different unions, however, the differences from year to year and from union to union reflecting on the one hand industrial conditions and, on the other, relative membership and rate of benefits paid.

Other European countries, notably Belgium, Denmark, France, Germany and Italy, have also had experience with unassisted voluntary out-of-work benefit systems which were extremely useful in developing more generally applicable subsidized schemes of unemployment insurance.[4]

[1]Great Britain. Report of Chief Registrar, Friendly Societies, 1911, Part A, p. 33. Cited in Cohen, Joseph L. "Insurance Against Unemployment," London, 1921, p. 81.

[2]United States. Commissioner of Labor. Twenty-fourth Annual Report, "Workmen's Insurance and Compensation Systems in Europe," Washington, 1909, Vol. II, p. 1620.

[3]Cohen, *op. cit.*, p. 279-280. See also pp. 40, 47 of the present report.

[4]See, for example, Twenty-fourth Annual Report of the Commissioner of Labor, *op. cit.*, pp. 535 ff.; 651 ff.; 946 ff.; 1466 ff.; 1909 ff.

In the United States, trade union benefits in case of unemployment have made very little progress in comparison with their development in Europe. Whereas in England, the year before compulsory insurance was adopted, 29.9% of all benefits paid by registered unions was for out-of-work pay,[1] in the United States, in 1921, only 15% of all benefits paid by labor unions was for unemployment relief. This amounted to $460,286.49, and was paid by the American Federation of Labor locals and nine affiliated national unions, of which two of the latter paid more than four-fifths of all the out-of-work benefits recorded.[2] The average annual out-of-work benefits for the years 1903 to 1918 inclusive, paid by labor unions affiliated with the American Federation of Labor was $143,985.81, or 5.7% of all benefits paid.[3] In addition, relatively small amounts were spent each year for traveling benefits.

Friendly Societies

The British friendly societies antedate the labor unions as sources of mutual relief in distress, but insurance against unemployment has not been so successful with the friendly societies as with the unions. This is so, largely because the membership of the friendly societies is made up of workers in all trades, with varying degrees of risk of unemployment, and the establishment of a sound actuarial basis has been practically impossible. The benefits paid by the friendly societies, which are in return for regular dues paid by members, have been almost entirely in the form of advances for travel in search of work,[4] although special grants have been made in times of great distress due to unemployment.[5]

In Italy, mutual benefit societies somewhat analogous in organization and purpose to the British friendly societies have been in operation for many years. While the main purpose of these associations has been to give relief in case of sickness, old age and death, some of them have provided compensation for loss of work and have recently been incorporated in the more comprehensive system of compulsory state insurance.[6]

[1]Cohen, *op. cit.*, p. 81.
[2]American Federation of Labor. Report of the Executive Council to the Forty-first Annual Convention, Denver, 1921, p. 21.
[3]*Ibid.*, "History, Encyclopedia, Reference Book," 1919, p. 495.
[4]Twenty-fourth Annual Report of the Commissioner of Labor, *op. cit.*, Vol. II, p. 1553.
[5]Cohen, *op. cit.*, p. 76.
[6]Twenty-fourth Annual Report of the Commissioner of Labor, *op. cit.*, Vol. II, pp. 1828, 1914 ff.; Cohen, *op. cit.*, pp. 347 ff. See chapter III of the present report.

The fraternal societies in the United States, which correspond most closely to the British friendly societies, have no definite provision for unemployment relief.[1]

Administration

The administration of labor union benefit funds for unemployment relief is very much the same in all countries. From the dues paid by members, a certain amount is usually allotted to the unemployment fund. From this, benefits are paid under somewhat the following conditions. Unemployment must have lasted a certain number of days, and proof must be furnished that the member has made honest efforts to secure work and cannot find it. Usually he is required to report daily to a union official, and failure to do so forfeits that day's benefits. The length of time during which benefits will be paid in any one year is usually limited.[2] Traveling loans, which are sometimes paid by unions either in place of, or in addition to, regular out-of-work benefits, are usually advanced by the local unions to enable workmen to proceed to a place where work is known to be or where there is a possibility better than under the existing local conditions. It is expected that these loans will be repaid. Workers are kept informed of opportunities for employment through personal contacts, correspondence and the official publications of the organizations.

Conclusion

The voluntary cooperative organizations for relief against unemployment described in the present chapter have attained a different degree of importance in different countries. In England and certain other countries of Europe for many years they have been widely accepted as a means of meeting the unemployment contingency in the trades to which they applied. When the more general schemes described in the next succeeding chapters were adopted, much of the experience as well as the machinery of these voluntary organizations was used as a basis for more extensive relief.

In the United States, on the other hand, there have been no friendly societies, and labor union benefits have been so few and

[1]National Fraternal Congress of America. Proceedings, 1919, Table A and Table B.

[2]See, for example, United States. Commissioner of Labor. Twenty-third Annual Report, "Workingmen's Insurance and Benefit Funds in the United States," Washington, 1908, pp. 34, 221; Smelser, D. P., "Unemployment and American Trade Unions," Baltimore, 1919, Chapter VI; Kennedy, James B., "Beneficiary Features of American Trade Unions," Baltimore, 1908, Chapter IV; Cohen, *op. cit.*, pp. 271 ff.

irregular as to have afforded neither substantial relief for unemployment nor an adequate basis for the establishment of a more generally applicable system of aid.

The principal advantages that can be urged in favor of such systems of mutual aid as trade union benefit funds are that they spring from the voluntary initiative of the workmen whose welfare is affected; that the risk of unemployment is approximately equitable for all; that, within a relatively narrow local area, workmen may be informed of employment vacancies as they occur; and that among small groups of workmen fairly well known to each other, the possibility of malingering is reduced to a minimum.

On the other hand, these funds fail as an effective means of meeting the unemployment problem, generally because of the relatively small number of workmen whom they reach. In Great Britain, in 1911, the year in which compulsory state insurance against unemployment was adopted, 3,018,000 workers, or about one-fifth of all persons employed in industry,[1] were estimated to be in labor unions. Friendly society membership included thousands more, but an unknown proportion of the latter also belonged to labor unions. In the United States, in 1920, according to the best estimate available, 4,924,300 workmen, or 12% of the total number of gainfully occupied persons, were organized,[2] and of these, only a very unimportant proportion received from their unions any protection against the contingency of unemployment.

As contrasted with other means of meeting the unemployment problem, to be discussed later, these unassisted voluntary cooperative schemes mutually organized among wage earners place upon the workmen the entire cost of providing for unemployment when, as a matter of fact, the responsibility for this lack of work is rarely their own, nor are they able in any way to create work for themselves unaided. Workmen's mutual insurance against unemployment affords no incentive to forces which might be invoked to assist the wage earners in remedying conditions; and, unaided, they are able to do little or nothing toward the elimination of unemployment itself.

[1]National Industrial Conference Board. "Problems of Labor and Industry in Great Britain, France and Italy." Special Report No. 6, November, 1919, pp. 69-70.

[2]Barnett, George E., "The Present Position of American Trade Unionism." Papers and Proceedings of the Thirty-fourth Annual Meeting of the American Economic Association. *The American Economic Review*, New Haven, March, 1922, Supplement, pp. 46, 55.

The knowledge of the labor market obtained by local groups is, moreover, necessarily restricted and the machinery for keeping members in touch with opportunities any distance away is slow. The field for placing members out of work is, therefore, limited and the necessity for paying benefits for lack of work is correspondingly great. In addition, the number of individuals in any union among whom the risk is distributed is so small as often to make contributions very high in relation to benefits paid.

Finally, the financial basis of these voluntary mutual benefit schemes is insecure in the extreme. The rate of contribution and the rate of benefit are rarely related to the probable risk, and while in some unions a definite proportion of the dues is set apart for unemployment benefits, in others, these benefits are paid out of the general fund. In none of the unions, probably, is the unemployment fund secure from levies in case of required strike benefits or to meet other financial needs of the organization. Hence, when the occasion for unemployment benefits arises, there may not be funds with which to pay them. In the case of traveling loans it has often been found difficult to secure repayment. This fact, together with the careless methods used in sending workmen from one locality to another, has led to the conclusion that the union traveling loan system as a means of meeting the problem of unemployment has been a failure.

It was apparently in recognition of the fact that these unassisted voluntary provisions for indemnity against loss through unemployment were so uncertain and protected so small a proportion of the workers that more secure and inclusive schemes for relief, described in succeeding chapters, have been adopted.

III

PUBLIC SUBSIDIES TO VOLUNTARY ORGANIZATIONS

The inadequacies of purely voluntary unassisted cooperative relief schemes for meeting the contingency of unemployment have, in many countries, led to attempts to make them more effective through some sort of public subsidy and control. These have taken two general forms: (1) public cooperative relief funds, and (2) public subsidies to private associations.

Public Cooperative Relief Funds[1]

Because trade union benefits reach only a small proportion of wage earners and those, often, who are best able to tide themselves over an emergency period, and also because such benefits as the unions pay are often uncertain and unable to survive periods of prolonged distress, a number of cities in Europe have, at different times, organized municipal unemployment funds. While these differ in qualifications and administrative details, their essence is an offer either by the municipality or a group of public-spirited citizens, or both, to pay benefits in time of unemployment to individuals who in turn contribute funds which shall also be used for this purpose.

The first of these municipal unemployment funds was started at Berne in 1891. Others have been established in Cologne, 1896; Bologna, 1896; Venice, 1901; Leipzig, 1903; Geneva, 1904;[2] Basle, 1909 and other continental cities.[3] Their principal purpose is to provide relief, especially during the winter months, for workers who, during the preceding months, have contributed to a municipal fund as a form of insurance. The sums thus paid in by workmen are supplemented by contributions from the municipality, private individuals, organizations, etc., and are used to pay benefits to members of

[1]See Twenty-fourth Annual Report of the Commissioner of Labor, *op. cit.*, pp. 1447 ff.; Bliss, W. D. P., "What is Done for the Unemployed in Europe." United States. Bureau of Labor, Bulletin No. 76, Washington, May, 1908, pp. 829 ff; Schloss, David F., "Insurance Against Unemployment," London, 1909; Turner, G. V. M., "Unemployment Insurance," New South Wales. Board of Trade. Sydney, 1921, pp. 20 ff.; also, various numbers of *The Labour Gazette* (Great Britain), *The International Labour Review* and other publications of the International Labour Office.

[2]Abandoned in 1909 in favor of the Ghent system.

[3]The Leipzig fund was privately supported and the Bologna fund was in reality a bank subsidy to savings depositors.

the fund who are unemployed. The Cologne Fund,[1] for example, was open to all male workers in the city who were over 18 years of age and had resided in the city at least two years. They paid a fixed sum a week into the fund, beginning April 1 each year, and continuing for 34 weeks, in return for which they received preference in placements at the municipal labor exchanges; or, if work was not available, a fixed rate of benefits was paid them for eight weeks during the months from December 15 to March 15.

There was no selection of membership in this fund on the basis of occupation or of risk, and the only differentiation in benefits was that men with families received more than men without, and that lower rates were paid during the later than during the earlier weeks of unemployment. In order to keep the fund solvent, there was a provision that the sale of membership books must be stopped as soon as it appeared to the officials in charge that, assuming that every member would draw benefits, two-thirds of the amount of contributions paid in, including the municipal subsidy, would be paid out.

The fund was administered by three separate committees, composed of representatives of the workmen, of the municipality and of the private contributors to the fund, each of which committees had various functions related to the collection of dues, payment of benefits and other matters in connection with the settlement of claims.

This system has never been self-supporting, since the only workmen who have joined have been those most liable to be unemployed.[2] It was reported in the first years of the Berne fund that six times as much was paid out in benefits as was received in dues. Ten years later, 21% of the total cost was contributed by the beneficiaries. Although the Berne fund later limited the number of casual workers whom it would insure, the average risk in all of these funds was unusually high and the fund became in reality a form of public subsidy to those workers who were thrifty enough to take some thought themselves for the time when their wages would stop.

In Cologne, in 1910, these averaged about 15% of all the unemployed. Since the financial arrangements of the fund were entirely without actuarial basis, the annual deficits, made up

[1]Twenty-fourth Annual Report of the Commissioner of Labor, *op. cit.*, pp. 1448-1452.

[2]In practice, the majority of beneficiaries of the funds have been building trades employees.

from public and private donations, were large. Even the sums thus available did not solve the unemployment problem, however, and it is reported that emergency relief work often had to be undertaken during the winter. On the other hand, through the cooperation of the municipal fund with the local public labor exchange and the necessity of paying benefits if work could not be found, the amount of unemployment is said to have been considerably reduced.

These municipal funds for unemployment relief have never achieved any great success, either as a means of compensating workers for time lost because of lack of work or as a means of preventing unemployment. They were designed essentially to take care of a regularly occurring emergency to which practically all of their members were subject, rather than to provide relief to a wider body of workmen throughout the year, and the per capita cost has been very high.

The number of persons reached by these funds has been relatively small and of these the percentage claiming benefits has been very large. The Cologne fund estimated prior to the World War that from 75% to 85% of all persons thus insured would claim benefits in a given year. This proportion, compared, for example, with an average of less than 5% claiming benefit in Great Britain in ordinary years, indicates how high must be the rate of contribution or of public subsidy to pay benefits for so great an average risk. As a matter of fact, the amounts paid by the beneficiaries of the Cologne fund averaged only 40% to 50% of the benefits paid. The remainder, together with the cost of administration, was met by the municipality or private individuals and organizations that contributed. Beneficiaries were limited to the number who could be relieved by the public resources available. Thus, many of those in real need, who in the nature of the case should have been helped, were without aid.

While the evidence available does not indicate the extent to which these systems of municipal funds for the relief of unemployment have prevented or produced a large amount of malingering, it is to be expected that in places where there is no public provision for relief from sickness, accident or other personal causes of loss of work, the demands on the unemployment fund might at times be made to cover losses other than those due exclusively to lack of work.

Public Subsidies to Private Organizations: The Ghent System

At the same time that public relief funds to meet the unemployment contingency were being developed in certain European cities, other cities were trying a different method of meeting the needs arising among workmen because of lack of work. This system consists of a direct public subsidy either to workmen's organizations, principally the trade unions, who are already making some provision for unemployment relief, or to individuals directly who give evidence of themselves systematically making this provision.

The adoption of this system of public subsidy to voluntary organizations was the direct result of careful study of the communal unemployment funds just described. This developed the theory that, short of compulsory insurance of all workers, the surest way to avoid the inclusion only of poor risks in a so-called insurance scheme to meet the unemployment contingency was to select organizations of workers which already had determined the average risk and were providing for it themselves, or which could get the necessary actuarial data. It is significant that when applied in this way the plan apparently met with a measure of success and when applied to individual workers outside of organizations it has failed.

This system of public subsidy to private relief of unemployment is usually known as the Ghent system because of the city of its origin. During the last years of the nineteenth century unemployment in Belgium, as in other parts of the world, had assumed serious proportions. The only available means of relief were the small benefits paid their members by the trade unions, and public and private charity. In 1898, the city council of Ghent appointed a commission to study what means of relief should be provided in that city. In 1901, the plan about to be described was undertaken for a three-year trial. In 1904 the system was adopted as a permanent institution. It has been extensively copied in many other cities and larger political units in Europe. As applied to an entire country, the Ghent system has probably reached its most complete development in Denmark, through the extension and codification of existing regulations in 1920 and 1921.[1]

[1]International Labour Office. Geneva. Legislative Series, 1920–Den. 1. Act: Unemployment Funds; *ibid., Daily Intelligence*, December 16, 1921, pp. 21–23; *ibid., Industrial and Labour Information*, February 3, 1922, pp. 15–18; *ibid., International Labour Review*, April, 1922, p. 677.

Persons Included: According to the plan originally adopted in Ghent,[1] all members of labor unions or other organizations which made definite provision for the payment of unemployment benefits were eligible to share in the scheme. To take care of those workers who could not, or would not, belong to labor organizations of this kind, adults who gave satisfactory proof of having themselves saved for the contingency of unemployment were entitled to a similar subsidy on their own initiative.

The attempt to include other than members of regularly organized associations in the scheme was not a success, however, since very few individual claims on the fund have ever been made. To overcome this failure to reach the unorganized workers, which was recognized as a serious defect in the original Ghent system, provision was made in the Norwegian law, adopted in 1906, that in order to be eligible to receive a public subsidy for their unemployment funds the unions must open membership in them to all members of their respective trades. Since, however, this did not entail complete membership in the unions, and the latter were privileged to exact higher premiums from outsiders than from *bona fide* members of the organizations in order to meet the increased expenses of management, this provision of the law has always remained practically a dead letter.

According to the French law, adopted in 1905, beneficiaries of the unemployment subsidies were either members of federated trades with a membership of 1,000 or more and which represented at least three departments, or they were local organizations which undertook to provide unemployment relief for their members. The latter were not so successful, however, and the development of the French system has been dependent largely on the growth of the trade unions.

In Denmark, in 1907, an attempt to net the unorganized workmen into a voluntary scheme of insurance on the basis of trade or occupation took the form of organizing special societies of unemployment, members of which join together for the purpose of paying definite contributions into a common fund, which receives state aid if it meets certain statutory conditions. These societies, which to receive state aid must ordinarily have at least 100 members, may be organized either by trades or by

[1]Unless otherwise indicated, the source of information regarding the Ghent system is the Twenty-fourth Annual Report of the Commissioner of Labor.

locality, irrespective of trade. Membership is open to all workers between the ages of 18 and 60 years whose property is valued at less than a specified amount, and who are presumably capable, physically and morally, of working regularly and on good terms with their fellow employees. A worker may belong to only one society at a time. In practice, this requirement has meant the organization by the trade unions of unemployment societies composed of an identical membership, and membership in the latter is made compulsory by the former. The unemployment funds have been successful in Denmark only where they are thus definitely related to the unions in the same trade. In neither Denmark nor Norway are individuals insured against unemployment outside an insurance society.

Contributions and Benefits: According to the original Ghent plan, benefits were paid from the public funds to match those paid by the local unions, with the provision that at no time should the amount paid by the municipality exceed 100% of that paid by a given union, or exceed a specified amount per day. In addition, most of the unions required that a member should not be entitled to draw unemployment benefits until he had belonged to the union a specified length of time, such as six months or a year. Public subsidies in Belgium have amounted to about 60% of the benefits paid by the unions.

One member was not entitled to draw benefits for more than 60 days each year from the subsidy, although the unions often paid benefits from their own funds for as long as six months, and voluntary contributions to the municipal fund also made longer payments possible. Strikes and lockouts, sickness and accident were excluded as causes of relief, the only indemnity paid being for lack of work. If a worker refused employment offered him, he was not entitled to benefits. A trade union member was not entitled to benefits unless he reported on his first day of unemployment at the local labor exchange, to indicate that he was in need of work; non-members reported each day for which they claimed benefits.

Similar qualifications as to age of members, length of membership in the associations, period of time for which benefits would be paid and other regulations governing the payment of contributions and distribution of benefits are found in those countries whose unemployment insurance scheme is founded on the Ghent system. In Denmark, members' contributions to the

fund are fixed annually at such an amount as will, with the government subsidy, be sufficient, so far as past experience indicates, to pay such benefits as may be required. Additional levies may also be made if necessary. An amount equal to one-half of these contributions by members is made from the state treasury on receipt of evidence regarding the membership and operation of the fund during the preceding year. All moneys available for the unemployment fund must be kept separate from the funds of any other association. Benefits of each fund are determined separately for each member who applies for aid, and may be paid in cash or in kind. Benefits may consist of either allowances toward travel and removal; assistance in paying rent, or a daily allowance; but in no case shall they be more than two-thirds of customary wages current in the trade or district or less than 1 krone ($.268) a day or, if a man has a family to support, 2 kroner ($.536).

To receive benefits in Denmark, a person must have been a member of the fund for at least a year preceding, during which period he has paid contributions, and must have been employed for at least ten months during the two years prior to his unemployment. There is a uniform waiting period of six days, but the period during which benefits will be paid is fixed by the separate funds, except that in none shall it be less than 70 days a year, and, after a member has received his maximum benefits for three years, no further benefits will be granted until a year has elapsed in which he has paid complete contributions and has been employed at least 26 weeks. Extra benefits may be paid from a special reserve fund built up to meet the requirements of periods of exceptional unemployment. Benefits are not paid to persons out of work because of labor disputes, sickness, detention for breaking the law, or to persons who refuse suitable employment. Members in receipt of poor relief or whose unemployment is due to their own misconduct are also excluded.[1]

Because of the extreme and prolonged depression of 1921, a central unemployment fund was created in Denmark, made up of contributions from employers, communal insurance funds and the state. From this, benefits are to be paid in periods of

[1]An interesting provision of the Danish law permits the commune in which a worker lives to pay up to one-third of his dues to the unemployment fund if the authorities are satisfied that he is financially unable to meet this obligation himself. Such assistance does not involve the disabilities of poor relief. Communes may also contribute to the unemployment funds directly an amount equal to one-third of the contribution of resident members.

exceptional unemployment to members of the communal funds who have exhausted their right to benefit or who have dependents or who satisfy certain other specified conditions and for whom public relief works are not available. The central unemployment fund may also be used for grants to special vocational courses on which certain recipients of relief may be required to attend.

Administration: In Ghent the fund is administered by a committee appointed by the municipal council for a term of three years. Each month the committee meets and determines what allowances will be made for the next month, on the basis of funds available. On January 1 of each year the subsidies themselves are paid over to such of the local unions as belong to the fund, to reimburse them for the advance made in the city's behalf at the time the union benefits themselves were paid. The cost of administering the fund is borne by the municipality. In France, where the subsidy is made by the state to local funds, a state commission administers the law. The sums available each year are divided into two equal parts, and the Minister of Commerce determines each half year the rate according to which the funds shall be distributed. In Denmark supervision of the local insurance funds is entrusted to an inspector of unemployment, who works in cooperation with an unemployment insurance committee appointed annually by delegates from the separate funds, and who is responsible to the Minister of the Interior. This inspector and committee fix rules regarding the transfer of members from fund to fund, establish uniformity of regulations regarding benefits so far as possible and in other ways see that the funds are maintained in an efficient manner. The delegates from the separate funds meet with the inspector each year and, since nearly all of the trade societies for unemployment have headquarters in Copenhagen, the general management of them all is materially facilitated. The larger societies also have paid local officers to attend to the affairs of the fund, but the smaller ones are administered on a voluntary basis.

The system of meeting the unemployment contingency by granting aid to those who helped themselves, became so popular in Ghent that in 1908 the national government of Belgium undertook to grant subsidies to the local funds under essentially the same conditions as those under which the municipal

aid was given. As was the case with the local funds, individuals outside of recognized organizations, who also were eligible to receive benefits on offering proof that withdrawals from savings accounts had been made to meet the emergency of unemployment, did not avail themselves to any extent of the opportunity.

The state subvention, which is in addition to the funds provided locally, has permitted larger relative subsidies to the local unions and has made for greater stability of the benefits paid. The conditions under which these are granted from the state subsidy are the same as those regulating the distribution of local funds.

By 1914 there were 29 municipal or intermunicipal unemployment funds in Belgium, representing 101 municipalities. Most of these were entirely suspended during the war, but after the armistice they came to life again with renewed vigor. On January 1, 1921 it was reported that there were 84 municipal funds representing 627 municipalities. The membership at that time numbered over 800,000, as compared with 126,278 in 1913.[1] The state subventions were also renewed after the war, the arrangement being that approved societies having benefits of their own should be paid a subsidy equal to 50% of their members' contributions, up to 75 centimes ($.145) a week in seasonal industries and 50 centimes ($.097) in others. One-half of the cost of administering the local unemployment funds is also paid by the state.[2]

Although this system of state subsidies to private organizations has shown a steady growth in Belgium and other European countries, its weakness has been that it failed to include in the scheme thousands of unorganized workers who also undoubtedly were in need of relief when unemployment came. Attempts to meet this need, by providing that workers outside of labor organizations should receive the same proportional benefits on proving that they were drawing on their accumulated savings to meet the contingency of unemployment, have met with little success. Claims among these workmen have been few and the system seems to have been totally inadequate to meet the requirements of this unorganized group.

[1]Great Britain. Ministry of Labour. *The Labour Gazette*, January, 1921, p. 12.
[2]Royaume de Belgique. Ministère de l'Industrie et du Travail. *Revue du Travail*, January, 1921, p. 122. Par exchange is given.

Hence Belgium is now considering the adoption of compulsory unemployment insurance. The first draft of a bill for a universal compulsory plan, drawn at the request of the Belgian government by the Belgian section of the International Association on Unemployment, provided for the organization of local insurance societies and a national re-insurance fund, somewhat similar to the Danish system, but compulsory as to membership. The local insurance societies would include the trade union groups as at present, and also groups to be organized outside the trade unions for the benefit of non-members and managed by the local unemployment fund. The function of the state re-insurance fund would be to supplement the work of the local groups by allocating benefits when members of the latter had exhausted their right to benefits, or when the local funds had themselves become exhausted.

According to the proposed plan, all wage earners between the ages of 16 and 65, except agricultural and domestic workers, would be required to join an unemployment society, either a trade union or other group organized in a special locality or trade in a specially organized association. These are classified in four groups, according to the risk of unemployment, and contributions to the local societies would be made by members at a graded scale on this basis. In addition to the dues of members, state subsidies equal to 50% of the total amount of contributions paid by members, and province and commune subsidies of 20% each, subject to certain limitations, are also to be available for the local funds. The national re-insurance fund is to be made up of contributions from employers equal to 50% of the contributions of the workers, state subsidies equal to 50% of the employers' contributions, contributions from the local societies up to 5% of their resources, and certain refunds from the local funds and individual societies.

Benefits are to be fixed by each trade group, subject to the rules of the local fund to which it belongs, and ordinarily they could not exceed one-half the worker's wage. Where, however, a worker had a family dependent on him for support, he might take advantage of certain optional features of the compulsory scheme, which would allow him to provide for his wife and children. In no case, however, could his benefits exceed two-thirds of his normal wage. Benefits would be limited to 60 days in one year in non-seasonal industries, and to 36 days in seasonal

trades. These benefits from the local funds might be supplemented by further benefits of 30 days and 18 days respectively, from the state fund if required. Benefits are not to be payable, however, until after one year of membership in a society, and a waiting period of two days would intervene before benefits begin.[1]

Although the proposed Belgian system appears somewhat complicated, it is thought by its advocates to be the simplest possible, in that it gives the local societies a direct interest in the state re-insurance fund, and thus should tend to minimize abuses, and also because it places directly on the local organizations themselves the responsibility for investigating alleged unemployment and satisfying themselves of its involuntary character, thus affording an effective check to malingering. It has the additional advantage of classifying the risks of unemployment and regulating the contributions in accordance with the number of days of time lost, not by large heterogeneous groups, but by those whose average loss is approximately identical.

This bill, on which no final action has as yet been taken, was modified somewhat by the Trade Union Committee of the Labour Party and of the Independent Unions. The principal differences from the original are that the later draft included agricultural workers within the scheme, and required that employers' contributions should be made to the local societies which are controlled by the workers.[2]

Conclusion

The municipal funds subscribed either by public or private organizations to relieve distress due to unemployment among those workers who also contributed to the same fund have never been a success because, membership in them being on a purely voluntary basis, they have attracted only workmen who were most certain to be out of work and in need of aid. The cost has, therefore, been very high per capita, and the solvency of the funds has been maintained only by limiting benefits or increasing appropriations. To the extent that these funds have cooperated with public labor exchanges in attempting to place workmen, there has probably been a slight reduction of unemployment by giving the funds the alternative of paying benefits

[1]International Labour Office. *Daily Intelligence*, Geneva, August 16, 1921, pp. 21-25.
[2]International Labour Office. *Industrial and Labour Information*. Geneva, March 17, 1922, pp. 18-19.

if work was not found. The funds have, however, never approached the problem of preventing unemployment by getting at fundamental causes, and, not having included employers in the scheme at all, they have failed to obtain the cooperation of one group which, perhaps more than any other, is in a position to relieve the unemployment situation. These municipal unemployment funds have never reached a large proportion of the local workmen and, except for those in a few seasonal trades, have afforded little relief either in normal years of unemployment or in times of acute distress.

The Ghent system has overcome some of these difficulties. Membership in it, also, is voluntary, but in practice only those persons who are already members of trade organizations have availed themselves of its benefits. This has meant a calculable risk, and the maintenance of the solvency of the public funds, since the latter are appropriated to match those already provided by the trade unions or other organizations and may be secured from the public treasury as needed. To the extent, however, that the unions, because of unsound financial policies have been unable themselves to pay benefits, subsidies from public funds have also ceased automatically and members have found themselves without relief of any kind. Where, on the other hand, unemployment relief funds are maintained by the unions as a separate account and are definitely related to the probable risk of unemployment among their own members, benefits are likely to be secure in time of distress; or, as in Denmark, where the public subsidy is a percentage of the amounts paid in by members, rather than benefits paid out, the tendency is to accumulate a fair reserve fund.

The Ghent system is weak, moreover, in that, in practice, its success depends almost entirely on the cooperation of the trade unions. This means that unorganized workmen receive little or no benefits from it and that the position of the unions is correspondingly strengthened. Workmen in the unorganized trades usually need relief in cases of unemployment quite as much as any other class, but attempts to include them in the Ghent plan have had little success in any country. It is for this reason, perhaps more than any other, that a compulsory system of unemployment insurance has recently been proposed for Belgium, and that the countries which have recently adopted

unemployment insurance have taken the British rather than the Ghent plan as a model.

The most serious defect of the Ghent system of unemployment insurance is that it makes no pretence at preventing unemployment by obtaining the cooperation of the employing group. Labor exchanges are found in all of the countries where the Ghent plan is in use and their assistance in placing workers operates, of course, to reduce the amount of compensation the public must pay because men are without work. There is, however, no pressure placed on the industries of the country to organize the producing and distributing processes so as to reduce unemployment, nor are individual employers in whose plants the unemployment rates are unusually high penalized for this condition. Under the Ghent system, the employer as a factor in the unemployment situation is left out entirely. The compulsory law recently proposed aims to change this condition by requiring that part of the subsidy to the labor organizations be contributed by employers.

Because these various systems of public support to voluntary efforts at unemployment relief have still failed to provide assistance for large bodies of workers, and because from an actuarial point of view they have tended to be unsound, the compulsory insurance of workers in a state fund was the next step in the development of social insurance against unemployment.

IV

COMPULSORY INSURANCE AGAINST UNEMPLOYMENT: GREAT BRITAIN

The theory of compulsion as applied to insurance against unemployment had been considered at various times and places in Europe prior to its adoption by Great Britain in 1911, but such experiments as had been made in this direction were not popular or attended with any degree of success.[1] The British system has, therefore, attracted wide attention in other parts of the world and its development under the varied conditions of the first ten years of its operation has been of great significance.

The adoption of a compulsory system of unemployment insurance in Great Britain was the result of a careful study of the subsidized voluntary plans described in the preceding chapter, and was designed to remedy some of the shortcomings apparently inevitable in such a system. By the adoption of the compulsory principle, by the inclusion of a large number of workers in a variety of trades and by the distribution of cost among employers, employees and the state it was expected that the difficulties inherent in a less comprehensive and less controlled scheme would be avoided.

Early Relief of Unemployment

In order to understand the present British law providing for insurance against unemployment, it is essential to consider briefly the means of meeting the unemployment contingency which had preceded insurance. Many of the provisions in the compulsory insurance act were the result of years of observation and study of the effect of earlier attempts to meet the problem of unemployment, and the theory of the legislation and its effects can be fairly judged only in relation to its historical background.

Prior to 1886, the only cooperative undertakings for the relief of unemployment in Great Britain were the trade union benefit funds and the friendly society aid noted in Chapter II.

[1]See, for example, Willoughby, W. F., "Insurance against Unemployment." *Political Science Quarterly*, 1897, pp. 476–489. Reprinted in Commons, John R., "Trade Unionism and Labor Problems," Boston, 1905, pp. 589–602.

In addition, the poor laws permitted those who were in real need to live in the workhouse.

In 1886, owing to the great distress from unemployment resulting from the industrial depression of that year, the Local Government Board issued a circular to municipal authorities in the kingdom suggesting that they give work for wages to the unemployed in those places where conditions were particularly bad. Recipients of this unemployment relief were not to be classed as paupers, nor were they to be disfranchised as was the case under the poor law. This so-called Chamberlain circular was re-issued in substantially the same form in 1892 and again in 1904, and although its operation had many shortcomings, it was a significant step in the development of public recognition that unemployment is not a condition of individual responsibility but is a matter of deep public concern.

Legislation of a more permanent and positive character, designed to separate the relief of the unemployed from poor relief was provided in the unemployed workmen act of 1905. The purpose of this was to systemize the municipal relief work which had developed as a result of the Chamberlain circular and to remedy certain of the evils which were evident in its operation. According to the unemployed workmen act of 1905, authority to aid the unemployed was taken from the poor law guardians and placed in the hands of distress committees. These committees were "composed of representatives of the poor law, of the municipalities and of charity." Their function was to assist the unemployed in times of extreme depression, through supplying temporary work or through paying transportation to localities where labor was required. A number of offices were opened for the registration and placement of the unemployed but these, as well as the relief of distress under this act, proved to be no more constructive than previous activities of a similar nature and unemployment relief was still associated in the public mind with charity. Although the law was designed particularly to help the better class of workmen, the latter did not seek its aid, and the popular conception of the work of the distress committees was that they were agencies for the placement of such unemployed as were capable only of low-grade, unskilled labor. The cost of the system was far greater than was warranted by the results obtained.[1]

[1]For description and criticism of the Unemployed Workmen Act, see Beveridge, W. H., "Unemployment, a Problem of Industry," London, 1909, pp. 162 ff.

In 1909, the Royal Commission on the Poor Laws and Relief of Distress, appointed several years before, recognized the deficiency of the unemployed workmen act of 1905 as a remedy for unemployment and also that relatively small numbers of workers were being reached by existing voluntary schemes of cooperative relief. The minority report urged a nation-wide network of labor exchanges, and both reports recommended unemployment insurance.[1] The recommendation of the minority report that labor exchanges be established was enacted into law in September, 1909. These exchanges, controlled by the Board of Trade (later the Ministry of Labour), were to supplant those formerly administered under the Unemployed workmen act of 1905. An unemployment insurance bill was prepared at the same time,[2] but it was decided not to press its enactment until sufficient time had elapsed for the labor exchanges to become firmly established, inasmuch as the latter were recognized as a necessary part of the machinery for the proper administration of the unemployment insurance law.

Labor Exchanges

The main function of the labor exchanges was, of course, to place the unemployed in suitable vacancies with the least delay. For this purpose offices were established in all important employment centers and every means was taken to "collect and furnish information to employers requiring workpeople and workpeople seeking employment." In addition, the labor exchanges have served as the most important single part of the machinery for administering the unemployment insurance law, for each insured person, while out of work, must report regularly to a labor exchange as an evidence of his lack of employment and to secure work if such is available. Unemployment insurance is paid only after certification of a labor exchange that the individual is entitled to benefits because there is no work.

It would apparently be difficult to conceive of the operation of the present insurance act, to be described later, without the aid of the labor exchanges, not only as the means by which those unemployed may find work and unemployment be re-

[1]Great Britain. Royal Commission on the Poor Laws and Relief of Distress. Report, 1909, Vol. XXXVII, pp. 421, 1215.

[2]This bill was based on the Ghent system rather than on the compulsory principle finally adopted.

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duced to a minimum, but also as the means of recording those cases of unemployment for which compensation must be paid. The exchanges have not always run smoothly, and some employers still refuse to use them. As a means of connecting workers with opportunities for employment they have failed at many points. As a part of the unemployment insurance system as at present organized, however, they have apparently been indispensable.[1]

On March 31, 1910, there were 214 labor exchanges with a staff of 528[2], while in June, 1920, there were 395 labor exchanges and 1,049 branch offices. The employment staff on the latter date numbered 12,631 persons, "of whom 8,484 were at exchanges and branch offices, 1,330 at divisional offices, and 1,843 at the central claims and records office for unemployment insurance."[3] In August, 1921, the permanent staff numbered 6,241, which it was proposed should be increased to 9,283 in April, 1922.[4] It was reported in December, 1920, that about three million workpeople had registered at the exchanges during the year and that within the same period employers notified the exchanges of about one and one-half million vacancies, of which one million were filled.[5]

The Unemployment Insurance Act

The Royal Commission on the Poor Laws and Relief of Distress, which in 1909 unanimously recommended a state subsidized voluntary unemployment insurance law, did not present a draft of a bill but suggested that the trade unions be used wherever possible and that a scheme be worked out by industries.[6] Before adopting any system, however, an investigation was made of the available European experience with unemployment insurance. This investigation developed the conviction that a purely voluntary scheme inevitably meant the inclusion of too large a proportion of bad risks and that only through making insurance compulsory for all workers in a number of trades would a sound financial basis be secured.[7]

[1] *The Labour Gazette* (Great Britain), December, 1920, pp. 665–666. See pp. 58, 59 of the present report for discussion of means by which it is thought unemployment insurance may be administered without the labor exchanges.

[2] Cohen, *op. cit.*, p. 172.

[3] *Idem.*

[4] *Industrial and Labour Information*, February 24, 1922, p. 22.

[5] *The Labour Gazette* (Great Britain), December, 1920, p. 665; *ibid.*, February, 1921, p. 66.

[6] Report of the Royal Commission on the Poor Laws and Relief of Distress, *op. cit.*, Vol. XXXVII, p. 421.

[7] Hansard, Parliamentary Debates, House of Commons, May, 1909, Vol. V. p. 507. See also, Jackson, Cyril, "Unemployment and Trade Unions," London, 1910, pp. 31, 32; Gibbon, I. G., "Unemployment Insurance," London, 1911, p. 75.

A law embodying the principle of compulsion was finally adopted December 16, 1911,[1] and became effective July 15, 1912. The original act was amended and extended in 1914, 1915, 1916, 1919, 1920, 1921 and 1922 to take account of conditions presented by the war and reconstruction. Some of these amendments were only temporary; others became an integral part of the unemployment insurance law. In the analysis which follows, the act of 1911 will be described in detail, and such of the amendments as seem to have permanent significance.

Persons Included: According to the act of 1911, all manual workers 16 years of age and over in the following trades were entitled to unemployment benefit: building, construction of works, shipbuilding, mechanical engineering, iron founding, construction of vehicles and saw milling. These trades were chosen because they were peculiarly subject to unemployment, and also because data regarding the incidence of time lost in them was available from the records of the unions in the trades.[2]

This unemployment relief might take the form of direct insurance or of subsidies to the unions already paying benefits, up to three-fourths of the amounts paid for this purpose. In addition, voluntary insurance was to be encouraged among associations of workers outside those specifically included within the act, by the offer of the government to refund not more than one-sixth of all out-of-work benefits paid its members by such an association when the benefits did not exceed 12s. per week ($2.92).[3] This attempt to combine the voluntary features of the Ghent system with the theory of compulsion, was, however, abandoned in the 1920 act.

In 1915 and 1916 the act was amended so as to bring within its scope for a limited period, extending for three years after the termination of the war, all workmen engaged upon the manufacture of war material, ammunition and explosives, chemicals, oil, lubricants, soap, candles, paints, colors and varnish, metal and metal goods, rubber and rubber goods, leather and leather goods, bricks, cement and other artificial building materials, saw milling, machine woodworking and

[1]The complete text of the law is printed in United States. Bureau of Labor. Bulletin No. 102. "British National Insurance Act, 1911." Washington, 1912.
[2]Hansard, *op. cit.*, May, 1909, Vol. V., p. 507; Dominion of Canada. Department of Labour. *The Labour Gazette*, Ottawa, September, 1921, p. 6; Twenty-fourth Annual Report of the Commissioner of Labor, *op. cit.*, p. 1620.
[3]Par exchange is quoted throughout this chapter.

wooden cases. The act of 1916 also permitted workers, who were not covered by the compulsory section, to obtain the benefits of the insurance scheme at their own request with the consent of their employers, if they were engaged in establishments where some workmen were compulsorily insured.[1]

In 1920 a law, passed in August and effective in November, made further amendments and extended compulsory insurance against unemployment so as to include substantially all wage earners except out-workers, persons employed in agriculture and private domestic service, and state and civil employees otherwise protected.[2]

According to a report made in the early part of 1914, after the act had been in operation less than two years, the number of unemployment books issued during the first year's operation was 2,508,939 for the compulsorily insured trades, and 172 trade unions, with a membership of 376,041, had made arrangements to claim a state subsidy for voluntary insurance. In addition, 21 trade unions, with a membership of 86,000, had begun to make provisions for unemployment benefits which had not been contemplated before the act was passed. It was reported at that time that only slightly less than three million persons, or nearly one-fifth of all the wage earners in the United Kingdom, were insured under the voluntary and compulsory provisions of the act.[3]

During the early years of the war the number insured against unemployment decreased, but the act of 1916 gave to nearly one and one-half million more workers the benefits of insurance, and the out-of-work donations allowed by the law of 1918 also increased the number who were receiving unemployment relief. The act of 1920 raised the number of workers insured against unemployment in Great Britain to more than twelve million. The number of workers estimated to have been insured against unemployment in Great Britain is shown by years as follows:[4]

[1]Great Britain. National Insurance (Part II) (Munition Workers) Act, 1916, July 19, Section 2 (2).

[2]*The Labour Gazette* (Great Britain), August, 1920, p. 418. In December, 1920, the Agricultural Wages Board appointed a committee to inquire into the matter of extending unemployment insurance to agricultural workers. They reported in July, 1921 that there was opposition both by employers and employees in agriculture to the inclusion of this industry under the provisions of the unemployment insurance law. *Ibid.*, July, 1921, p. 339.

[3]Coman, Katherine. "Great Britain's Experiment in Compulsory Unemployment Insurance." *The Survey*, New York, March 28, 1914, p. 801.

[4]Cohen, *op. cit.*, p. 205. These figures include recipients of out-of-work donations since 1918.

Date	*Number insured*
July, 1914	2,325,598
July, 1915	2,077,725
July, 1916	2,029,222
July, 1917	3,632,263
July, 1918	3,921,878
July, 1919	3,680,738
July, 1920	4,197,018
July, 1921	12,250,000

Rates of Benefit: Benefits of 7s. ($1.70) per week for both men and women were payable under the Act of 1911 after the first week of unemployment, in proportion of one week's benefit for every 5 weeks' contribution, and no workman was to receive benefits for more than 15 weeks; minors between 17 and 18 years of age received one-half this amount. No distinction was made between men and women or between boys and girls because in the trades originally insured, practically no females were employed.[1]

The period of unemployment for which benefits were allowed was considered not to have commenced until application had been made in the prescribed manner. This included proof that the workman had been employed in an insured trade in each of not less than 26 separate calendar weeks in the preceding 5 years, that since the date of his application for benefits he had been continuously unemployed, that he was capable of work, but unable to obtain suitable employment,[2] and that he had not exhausted his right to benefits under this act. A workman was to be disqualified for unemployment benefits if he had lost employment by reason of stoppage of work due to a trade dispute, through misconduct or voluntarily leaving employment without cause, or while he was an inmate of any prison or workhouse, or while he was in receipt of sickness or disability allowance under the health insurance act. Workmen who had reached the age of 60 and had paid 500 or more weekly contributions were entitled to a refund of such an amount as remained above benefits paid, together with interest at 2½% per year.

Late in 1919, benefits were increased for all workers from 7s. ($1.70) to 11s. ($2.67) per week,[3] and in 1920, the rate was again increased, this time to 15s. ($3.65) per week for men and

[1]*The Labour Gazette* (Canada), September, 1921, p. 1174.

[2]The unemployment insurance law does not define what constitutes suitable employment beyond provision that workers shall not be required to take a situation vacant because of a trade dispute, or for a wage or conditions less favorable than he habitually enjoyed in his own district or than usually prevailed in another district. The question of whether employment is or is not suitable has led to endless disputes of claims and references to the higher authorities for decisions.

[3]*The Labour Gazette* (Great Britain), January, 1920, p. 7.

12s. ($2.92) per week for women, with contributors under 18 years of age entitled to one-half the full rate. In 1920, the waiting period before benefits began was reduced to 3 days of unemployment, but the maximum period for which benefits could be paid remained 15 weeks in any insurance year. The limitation on the amount of benefits to be drawn was increased to one week's benefit for every 6 contributions paid. A worker then must prove that he had paid not less than 12 contributions to the unemployment fund, that he had made application for unemployment benefit in the prescribed manner and since the date of application had been continuously unemployed, that he was capable of and available for work but unable to obtain suitable employment, that he had not exhausted his right to benefits, and that, if he was required to attend an approved course of instruction, he had duly attended.[1] The same safeguards and prohibitions were provided in the act of 1920 as in the act of 1911, and refunds after workers had reached the age of 60 years were continued.[2]

In March, 1921, the benefits were still further increased to 20s. ($4.86) per week for men and 16s. ($3.89) for women, with one-half of these amounts for boys and girls, respectively. The period during which benefits would be paid was extended from 15 weeks to 26, beginning July 3, 1922.[3] It was expected that the resulting increase in cost would be met from the very large reserve fund which had accumulated during the war years when there was little unemployment,[4] and also from an increase in contributions which it was provided should go into effect in July, 1921, the beginning of a new insurance year.[5]

During the first half of 1921 unemployment increased steadily, with a constantly growing drain on the unemployment insurance fund. By the end of June so many persons were out of work and drawing unemployment benefits that only a few million pounds remained of the large surplus with which the year was started. On the other hand, workmen whose unem-

[1] *Ibid.*, January, 1921, p. 7.

[2] International Labour Office, Legislative Series, 1920—G. B. 3. Great Britain. Unemployment Insurance Act, 1920. Summarized in *The Labour Gazette* (Great Britain), August, 1920, pp. 418 ff.

[3] *The Labour Gizzette* (Great Britain), March, 1921, p. 120. Prior to July 3, 1922, temporary limits of 16 weeks each, in two separate periods between March, 1921 and July, 1922 were provided for, to take care of the large numbers of unemployed whose benefits under the old law would have been exhausted.

[4] This surplus had always been treated as capital, only the income being used as revenue for the unemployment fund. In the spring of 1921, however, so great had become the unemployment emergency, it was decided to spend the surplus itself. This, with increased contributions beginning in July, 1921, was expected to tide the fund over safely until July, 1922. *The Labour Gazette* (Canada), September, 1921, p. 1178.

[5] *Idem.*

ployment had lasted so long that their benefits were exhausted were again in distress. New legislation to check expenditures and increase income was, therefore, in order. An act passed in July, 1921, and operative immediately, reduced the weekly benefits to 15s. ($3.65) for men and 12s. ($2.92) for women, with corresponding reductions for children. The waiting period was increased from 3 days to 6, and certain special conditions authorized in the act of 1920 were suspended.[1]

Contributions: The cost of unemployment insurance is borne jointly by employer and employee with an additional state subsidy. In 1911, contributions were 2½d. ($.05) a week each from employer and workman, when the latter was 18 years or over, and 1d. ($.02) each for those 17 to 18 years of age. The state contributed an amount equal to one-third of these joint contributions. In 1920, the act for the first time distinguished between contributions paid by men and women, boys and girls, and in some classifications put slightly more of the burden upon the employer than upon the employee. Thus weekly contributions called for in the 1920 act were as follows:

	From employer	*From employee*	*From state*
Men	4d. ($.08)	4d. ($.08)	2d. ($.04)
Women	3½d. (.07)	3d. (.06)	1⅔d. (.03)
Boys	2d. (.04)	2d. (.04)	1⅓d. (.03)
Girls	2d. (.04)	1½d. (.03)	1d. (.02)

In addition, the Navy, Army and Air Force services were required to pay into the fund, for each seaman, marine, soldier and airman discharged from the service after July 31, 1920, such a sum as would establish him as eligible for benefits under the unemployment insurance law from the date of his discharge.[2]

By an amending Act passed in March, 1921, it was provided that in the following July contributions would be increased so that the employer would pay 6d. ($.12) for men, 5d. ($.10) for women, 3d. ($.06) for boys, and 2½d. ($.05) for girls with corresponding contributions of 5d. ($.10), 4d. ($.08), 2½d. ($.05), and 2d. ($.04), respectively, from employees. The state would add an amount equal to one-quarter of the joint contributions of employers and employees.[3] Owing to the financial condition of the fund in the summer of 1921, these amounts

[1]*The Labour Gazette* (Great Britain), June, 1921, p. 282. See pp. 58-60 of the present report for discussion of the movement for insurance by industries provided for in the Act of 1920 and suspended in 1921.
[2]Unemployment Insurance Act, 1920, *op. cit.*, Section 41.
[3]*The Labour Gazette* (Great Britain), March, 1921, p. 120.

were raised in July, however, so that the joint contributions amounted to 15d. ($.30) for men, and 13d. ($.26) for women, with corresponding rates for juveniles.[1] In November, 1921, when it appeared that benefits would have to be still further increased, the unemployed workers' dependents act was passed and contributions were again increased, for a period of six months, by 2d. ($.04) for men, and 1d. ($.02) each for women and juveniles, paid by both employer and employee, and 3d. ($.06) by the state for men and 2d. ($.04) for women and juveniles. These changes made the combined joint weekly contributions for the period until May, 1922, 19d. ($.39) for men, 15d. ($.30) for women, 9½d. ($.19) for boys and 8½d. ($.17) for girls.[2] The state would contribute 6¾d. ($.14) for men, 5¼d. ($.11) for women, 3⅞d. ($.08) for boys and 3⅝d. ($.07) for girls.[3] These contributions, which originally were to be paid weekly until May 7, 1922, or longer if necessary, were continued by an act of April, 1922, in order to meet the continuing need for funds.[4]

The cost of insurance is met by a fund created from these joint contributions of employers, employees and the state. One-tenth of this fund is returned to the state as payment of administrative costs. The act of 1911 provided that if at any time the contributions received were not sufficient to pay the benefits due, the fund might borrow from the Treasury up to three million pounds ($14,599,500), and the Ministry of Labour might make temporary modifications in the rates of contributions or of benefits.[5] In 1920, the amount the Treasury might advance was increased to 10 million pounds ($48,600,000), in July, 1921, this limit was raised to 20 million ($97,200,000),[6] and in April, 1922, to 30 million ($145,800,000).[7]

These increases were due to the tremendous drain on the unemployment fund produced by the unprecedented unemployment of 1921 and 1922. In June, 1921, when the act was modified for the second time in that year, 23% of all insured persons were out of work, and benefits were being paid at the rate of two million pounds ($9,720,000) a week, with less than £350,000 ($1,701,000) contributed. The unemployment fund

[1] *Ibid.*, June, 1921, p. 282.
[2] *Ibid.*, November, 1921, pp. 570–71.
[3] *Idem.*
[4] *Ibid.*, April, 1922, p. 157.
[5] British National Insurance Act, 1911, *op. cit.*, Section 93.
[6] *The Labour Gazette* (Canada), September, 1921, p. 1179; *The Labour Gazette* (Great Britain), June, 1921, p. 282.
[7] *The Labour Gazette* (Great Britain), April, 1922, p. 157.

which, in March, 1921, after the decision to regard as available income the capital accumulated during the war, amounted to 22½ million pounds ($109,350,000), in June was only 8½ million ($41,310,000). It was reported at that time that by the end of the month the fund would be exhausted. Treasury advances would, however, make possible a continuation of benefits. It was estimated in June, 1921, that by July, 1922, Treasury advances up to 16 million pounds ($77,760,000) would have been used. This deficit would be made good as business improved, and the expectation was that by July, 1923 the fund would again become solvent.[1]

Administration: The administration of the British unemployment insurance law is directly under the control of the Ministry of Labour,[2] a single department of which has charge of both the labor exchanges and unemployment insurance. As already noted, labor exchanges are so distributed throughout the United Kingdom as to bring an office within five miles of every principal body of insured workmen. In addition, there are so-called local agencies which deal with areas not covered directly by labor exchanges and which undertake, in premises provided by themselves, the administration of the unemployment insurance law in these localities.

Oversight of the separate local exchanges is vested in divisional offices located in the most important industrial centers. Work connected with decisions as to disputed claims for benefits and appeals, as well as the general clerical and financial work connected with the collection and disbursement of benefits, are carried on from these divisional offices. There are insurance officers appointed by the Ministry of Labour, and finally, an umpire, appointed by the Crown, and independent of the Ministry of Labour, determines questions arising from disputes as to whether contributions are payable under the insurance law, and such other questions as arise between the Ministry of Labour and individuals and associations affected by the insurance act.

Contributions of employers and work people are paid by means of stamps, distinct from postage stamps although purchased at the post offices, which employers are required to affix

[1]*The Labour Gazette* (Great Britain), June, 1921, p. 282. See also *The Labour Gazette* (Canada), September, 1921, p. 1179. For further details regarding the financial condition of the unemployment fund, see pp. 56 ff. of the present report.

[2]Formerly the Board of Trade.

in unemployment books supplied them by their workmen. These represent the joint contributions of employers and their employees. Unemployment books are carried by each member of an insured trade, and are deposited by the worker with his employer during the period of his employment. The employee's share of the joint contribution is deducted from his wages each pay day and he is entitled to inspect his book at intervals to see that the necessary stamps have been affixed. Failure to comply with the law invokes a fine. Each book is current only for a stated perod, such as an insurance year,[1] and at the end of the stated period it must be returned to the local office in exchange for a new book.

When a workman leaves his position his book is returned to him by his employer. If he does not obtain another job and wishes to claim unemployment benefit, the book is turned in at the local labor exchange where he must fill out a form of claim giving, among other things, the name and address of his last employer. Thereafter, if he lives within three miles of the local exchange, he must appear there daily during working hours to sign the unemployed register as evidence of his lack of employment. If he lives more than three miles away he need only come on alternate days, or at longer intervals according to the distance, or in some cases he may furnish by post a certificate of being unemployed.

These claims for unemployment benefits, together with a statement from the last employer regarding reasons for the unemployment and an account of the contributions which have been made by the claimant, are forwarded to the divisional offices where the claims are verified and, if allowable, are paid at once.

If the insured worker is a member of an organization which provides benefits from its own funds, and the system has been approved by the Ministry of Labour, claims are paid through this organization and the association is reimbursed by the state; persons who are not members of such organizations draw their benefits through the labor exchanges.[2]

At first the trade unions were not paid for their part in the administration of the law, but the work involved was frequently considerable, and in the Act of 1920 it was provided that payment for this service be made to the unions at a rate

[1]The insurance year runs from July to July.
[2]*The Labour Gazette* (Great Britain), August, 1920, p. 418.

not to exceed 1s. ($.24) for each week's benefits paid out. It is estimated that in 1921 one-seventh of all benefits paid were paid through the unions.[1] In 1921 and 1922, when the cost of unemployment insurance became very heavy, there was some movement to do away with this payment to the unions for administrative expenses[2] but no change had been made up to May, 1922, although the interdepartmental committee appointed to study means of reducing administrative costs recommended that the rate be revised to conform to a sliding scale based on the amount of unemployment.[3]

The claim for benefit may be disputed on various grounds, in which case machinery, already described, is provided for settling the dispute. If the local labor exchange brings to the notice of the workman an opportunity for apparently suitable employment which the latter refuses, benefits are suspended and the case is reported by the local office to the division officer for settlement.[4]

In the act of 1920, because it was recognized that insurance by industries had certain administrative advantages, it was provided that any industry approved by the Ministry of Labour could institute its own scheme of benefits and contributions provided the former were at least as good as those provided under the insurance act.[5] This plan did not prove practical in a period of great industrial depression,[6] however, and in the act of 1921 this special arrangement was suspended.[7]

Operation of the Unemployment Insurance Act

With the foregoing brief description of the origin and mechanism of the British unemployment insurance law in mind, consideration may now be given to the main results of the legislation and to such conclusions as may be drawn regarding its success.

It should be remembered at the outset that compulsory unemployment insurance was introduced in Great Britain as a relief measure after all other means of meeting the problems brought about by large bodies of workmen being more or less

[1] *The Labour Gazette* (Canada), September, 1921, p. 1177.
[2] *Industrial and Labour Information*, February 24, 1922, p. 22.
[3] *The Labour Gazette* (Great Britain), May, 1922, p. 202.
[4] As already noted, disputes over the suitability of employment form one of the most serious problems involved in the administration of the unemployment insurance act.
[5] *The Labour Gazette* (Great Britain), June, 1921, p. 418.
[6] *The Labour Gazette* (Canada), September, 1921, p. 1179.
[7] *The Labour Gazette* (Great Britain), June, 1921, p. 282. See, however, pp. 58-60 of the present report.

regularly without employment had failed. It was so recognized at the time[1] and is apparently so regarded at present.[2] Although the amounts received as benefits have always been so small, relative to the cost of living, as to constitute little if anything more than the doles formerly provided by charity, the worker himself contributes on the basis of estimates of the probable risk, and industry also is required to do its part. The argument is often made, therefore, that the relief of unemployment provided by insurance is socially more equitable and individually more self-respecting than the pauper relief which previously was the only aid available.

For years prior to the adoption of compulsory insurance against unemployment in Great Britain, public and private agencies had struggled in vain to meet the ever recurring problem resulting from large numbers of wage earners being without work. Public charity and emergency relief were followed by agencies for ascertaining where there was legitimate work and placing workers in those positions so far as possible. Finally, when every effort to reduce unemployment further had failed and there was still a residuum to be cared for, compensation for unemployment was adopted as a more dignified means of alleviating distress than that provided by pauper relief.

It should be distinctly understood of the British unemployment insurance plan, however, that the benefits it conveys were to provide for the normal year in and year out unemployment and were not designed to afford emergency relief in periods of acute distress caused by long periods of depression. The unemployed workmen act of 1905 continued to function when necessary after the passage of the unemployment insurance laws, to provide relief for those who did not have the benefit of insurance, or for those whose benefits were exhausted. During the acute distress of 1921–1922 public relief works of various kinds also were undertaken.

Unemployment insurance has apparently done little to reduce the amount of unemployment in Great Britain,[3] although, because of the abnormal conditions prevailing most of the time the law has been in operation, results cannot be regarded as conclusive. The original act of 1911 contained a provision that any employer on application to the Board of

[1]Halsey, Olga S. "Compulsory Unemployment Insurance in Great Britain," *American Labor Legislation Review*, New York, June, 1915, p. 268.
[2]*The Labour Gazette* (Canada), September, 1921, p. 1182.
[3]*Idem.*

Trade (Ministry of Labour) might receive a refund equal to one-third of his annual contributions for each employee continually in his service during the preceding year, for whom not less than 45 contributions had been made within the period.[1] Although several hundred thousand dollars had thus been refunded in the hope of encouraging thereby the regularization of employment, the results obtained were not satisfactory, and in the revised act of 1920, this reward was eliminated. On the other hand, some observers report that the system of making the rate of contribution higher when a workman was employed by the day than when he was employed by the week has met with considerable success in regularizing employment.[2]

When the Commission on the Poor Laws and Relief of Distress recommended unemployment insurance in 1909, between 7% and 8% of the trade union membership reporting to the Board of Trade (Ministry of Labour) had been unemployed for many months preceding.[3] In 1911, when compulsory insurance was adopted, unemployment among trade unionists averaged in the neighborhood of 3%. During the war years it averaged less than 1% but rose again with the dislocation of industry caused by the return of soldiers to peacetime occupations.[4] After that, employment picked up again until the spring of 1920, when only about 1% were unemployed. From the end of 1920, however, the increase in unemployment was alarming, reaching, in June, 1921, a total of 23.1% of all trade unionists; 19% of all persons insured against unemployment were reported as out of work, and 8% more as on part time.

In the first table on page 50 are given the average percentages of trade unionists unemployed in the United Kingdom by years since 1900 as published in the British *Labour Gazette*.[5] From this it will be seen that, leaving out of account the influence of the war, there seems to have been little difference in the relative amount of unemployment from year to year between the years before and the years after the passage of the insurance act.

[1]British National Insurance Act, 1911, *op. cit.*, section 94.

[2]See, for example, Turner, *op. cit.*, p. 44.

[3]*The Labour Gazette* (Great Britain), January, 1916, p. 3. Prior to the adoption of compulsory insurance against unemployment in Great Britain, the only information available regarding the number of wage earners out of work was contained in the reports made each month by trade unions.

[4]*The Labour Gazette* (Great Britain), January, 1922, p. 2.

[5]*Ibid.*, January, 1920, p. 3.

Mean Annual Percentage of Unemployed Trade Unionists in Great Britain

1900	2.5	1911	3.0
1901	3.3	1912	3.2
1902	4.0	1913	2.1
1903	4.7	1914	3.3
1904	6.0	1915	1.1
1905	5.0	1916	0.4
1906	3.6	1917	0.7
1907	3.7	1918	0.8
1908	7.8	1919	2.4
1909	7.7	1920	2.4
1910	4.7	1921	15.3

In 1920 and 1921, the following proportions of workers were unemployed. The first column gives trade union members only, the second, all persons compulsorily insured against unemployment whose books were deposited at the labor exchanges.[1] The table includes, in 1921, insured workers totally unemployed and those working systematic short time of such a nature as to qualify them to obtain benefit under the 1920 act. Persons working only one day short time a week, or reduced hours each day, or on certain days, were not eligible for benefits.[2]

Month	Percentage Unemployed at End of Month				
	1920		1921		
				Insured Workers	
	Trade Unionists	Insured Workers	Trade Unionists	Totally Unemployed	Systematic Short-Time Workers *a*
January	2.9	6.10	6.9	8.0	5.0
February	1.6	4.42	8.5	10.0	6.0
March	1.1	3.63	10.0	11.0	7.0
April	0.9	2.80	17.6[b]	16.0[b]	10.0
May	1.1	2.68	22.2[b]	18.0[b]	11.0
June	1.2	2.62	23.1[b]	19.0[b]	8.0
July	1.4	2.73	16.7	15.0	4.0
August	1.6	2.88	16.3	13.0[c]	3.0
September	2.2	3.80	14.8	12.0[c]	3.0
October	5.3	4.10	15.6	15.0	2.0
November	3.7	3.70	15.9	16.0	2.0
December	6.1	6.00	16.5	16.0	3.0

a The Act providing unemployment benefits for short-time workers became effective in November, 1920.
b Exclusive of coal mining, in which there was a general stoppage of work due to strike.
c Exclusive of those unemployed whose benefits had been exhausted.

[1] *The Labour Gazette* (Great Britain), December, 1920, p. 677; *ibid.*, January, 1921, p. 3; *ibid.*, January, 1922, p. 2.
[2] *Ibid.*, April, 1921, p. 187.

In 1921 the average number of persons who were drawing unemployment benefit or out-of-work donation each week was 1,487,000. In addition, short-time workers who qualified for benefit averaged 627,000 each week. The mean weekly percentage of total unemployment during 1921 was 16.2, taking into account the fact that workers claiming benefit in respect of systematic short time are unemployed on an average of 3 days per week.[1]

The adoption of compulsory unemployment insurance seems, however, to have had a definite effect on the amount of poor relief required. From January, 1900 to December, 1911, the average rate of pauperism in Great Britain was 215 per 10,000 population. In 1912 the rate dropped from 205 in July, when the unemployment insurance law became effective, to 197 in August and, except in the winter of 1912–13, did not rise above 200 again until April, 1921. While the war produced unusual conditions during much of this period, there were two full years after the law was in operation, from July, 1912 to July, 1914, when the pauper rate averaged only 191 per 10,000 population.[2]

The difficulties inherent in the problem of incorporating demobilized war workers into peace-time occupations, and the situation developing when large numbers of workers theoretically protected against loss through unemployment had exhausted their benefits, produced numerous plans for further relief of distress from unemployment. This has taken two forms: (1) the provision of emergency relief work of various kinds, such as repair and construction of roads, laying out parks and construction of other municipal works, and extensive building operations undertaken along lines similar to the emergency measures tried long before there was a system of unemployment insurance;[3] and (2) readjustments in the unemployment insurance law to take account of different emergencies as they have arisen. The former measures do not need discussion in the present report except to call attention to the fact that apparently they have met with little success as a means of providing work in time of distress, especially for women and skilled workers.[4] The readjustments in the

[1]*Ibid.*, April, 1922, p. 156.

[2]*The Labour Gazette* (Great Britain) each month gives the number and rate of persons receiving poor relief in the most important districts in the United Kingdom.

[3]Northcott, C. H. "Unemployment Relief in Great Britain," *Political Science Quarterly*, September, 1921, p. 421–423. See also *The Labour Gazette* (Great Britain), each month.

[4]*The Labour Gazette* (Canada), September, 1921, p. 1182.

insurance law, due to prolonged depression, have been briefiy mentioned in the description of the law already given and will be further discussed at this point.

Out-of-Work Donations: As early as 1915 the British Government began to take thought of the position of the demobilized soldiers and in 1918, just before the Armistice was signed, provision was made to care not only for members of the naval and military establishments, but also for civilian workers whose employment was upset by the change from a war to a peace basis. The government's plan was eventually to provide a universal contributory system of unemployment insurance, but inasmuch as the situation was urgent and the plan contemplated required careful study, non-contributory donations were introduced. It was the intention, however, "to press forward with such a measure [universal contributory insurance] and to introduce it as early as possible."[1]

The so-called out-of-work donation scheme adopted in 1918 at first provided that from the date of a soldier's demobilization, for one year, he might be entitled to 26 weeks, unemployment pay; civilian workers were entitled to not more than 13 weeks, similar benefits within a period of six months. These benefits, at the rate of 24s. ($5.83) for men and 20s. ($4.86) for women, with half of these amounts for boys and girls, respectively, and extra allowances for each dependent child, were to be paid directly by the government, without contributions from either employers or employees.[2] In December, 1918, these benefits were increased by 5s. each a week for adults, and by one-half of this for juveniles.[3]

Out-of-work donations were paid through the labor exchanges but recipients of the former were not entitled to draw unemployment benefits at the same time.[4] Inasmuch as the out-of-work donations were larger than the unemployment benefits they were very generally substituted.

Such a non-contributory plan placed a severe strain on the national treasury. In October, 1921, the Financial Secretary to the Treasury reported to Parliament that in the period of nearly three years from November 25, 1918, when out-of-work donations were instituted, to October 14, 1921, state funds to the amount of 62 million pounds ($301,320,000) had

[1]*The Labour Gazette* (Great Britain), November, 1918, p. 437.
[2]*Idem.*
[3]*Ibid.*, December, 1918, p. 484.
[4]*Ibid.*, November, 1918, p. 436.

been spent for this purpose.[1] The Minister of Labour stated, however, that on October 21, 1921, only 192 persons were receiving out-of-work donations, weekly payments for which amounted to only £232 ($1,127.52).[2]

It was because of the tremendous cost of these non-contributory out-of-work donations that the system of practically universal compulsory contributory unemployment insurance planned in 1918, was finally put into effect in November, 1920. This made contributions obligatory on the part of 8 million workers who had not previously paid for any unemployment benefits they might have received, and a few months later these same persons were all entitled to draw benefits at the rate of one week's benefit for every 6 contributions paid, provided that they had previously contributed for 4 weeks.[3] Thus, in 1921, when the unemployment situation became most critical, large numbers of persons were entitled to benefits who had paid relatively little in contributions.

By the spring of 1921 the unemployment situation began to appear serious. More persons were out of work than had ever before been recorded.[4] Moreover, many of them had been out of work so long that their benefits under the existing insurance system were exhausted. With so many workers thus placed it appeared imperative that something be done to relieve the situation.

In February, 1921, in a speech in the House of Commons, the Minister of Labour outlined the government's proposal, so far as this concerned unemployment insurance. Three amendments to the law were proposed: (a) to increase the rates of benefits; (b) to pay the benefits for 26 weeks in each insurance year as against the 15 weeks provided in the act of 1920, and (c) to increase the rates of contributions.

The disastrous results to the unemployment fund due to the increase in benefits, both as to amount and duration, before there had been an increase in contributions, and to the fact that large numbers of persons who had contributed only their statutory requirements to the fund received the in-

[1]Hansard, *op. cit.*, October 26, 1921, Vol. 147, p. 843.
[2]*Ibid.*, November 7, 1921, Vol. 148, p. 66.
[3]*The Labour Gazette* (Great Britain), August, 1920, p. 418. After the first year, no one would be entitled to draw benefits until at least 12 contributions had been made.
[4]*Ibid.*, August, 1921, p. 402.

creased benefits, have already been described.[1] It remains now only to consider the experience with changing the period for which benefits might be paid. This was to be 26 weeks in any insurance year, after July, 1922. Between March, 1921 and July, 1922, two special periods of 8 months each were created during each of which benefits would be paid for 16 weeks, providing the recipent had been employed at least 20 weeks since January 1, 1920.[2] During this special period the rule was suspended requiring that 6 weeks' contributions must have been paid for every week of benefits received, and in certain cases persons who had paid 4 weeks' contributions might draw up to 8 weeks' benefit in the year ending November 7, 1921.[3]

All of the amendments to the act of 1920 were obviously for the purpose of providing for the distress contingent upon the prolonged period of unemployment which began early in 1921. They were predicated on the assumption that unemployment would not average more than 9½% of all insured.[4] By June, however, 19% of all insured persons (23%, including those who were on part time) were claiming out-of-work benefits, and a considerable number of unemployed persons had exhausted their benefits under the new arrangement of 16 weeks' benefits payable in a period of 8 months. Accordingly, an act introduced in the House of Commons, June 8, 1921, and effective July, 1921, provided for the payment of benefits for an additional 6 weeks in each of the two special periods, together with increased contributions and decreased benefits already noted.[5]

How ineffective this was as a means of relieving the situation is indicated by the fact that at the end of August, 1921, about 209,000 persons who were wholly unemployed had exhausted their right to benefits.[6] At the end of September they numbered 366,500,[7] and nearly equal numbers were on a part-time basis. Early in November, when the second special period for which benefits were to be paid began, the number on the live register of the labor exchanges increased tremendously and

[1]The Minister of Labour reported in October, 1921 that at that time 1,500,000 workers out of the 8,000,000 brought under the Act of 1920 had thus far contributed nothing or had made contributions which under the permanent machinery of the act would not have entitled them to benefit. Hansard, *op. cit.*, October 24, 1921, Vol. 147, p. 449.

[2]Returned soldiers need prove employment for only 10 weeks.

[3]*The Labour Gazette* (Great Britain), March, 1921, p. 120.

[4]*Ibid.*, June, 1921, p. 282; *ibid.*, July, 1921, pp. 338–339.

[5]*Idem.*

[6]*Ibid.*, September, 1921, p. 464.

[7]*Ibid.*, October, 1921, p. 527.

continued to increase,[1] indicating that persons who had previously failed to register because their benefits were exhausted, were again applying for aid.

The Unemployed Workers' Dependents Act: Soon after the second period for receiving benefits without having met the statutory requirements regarding contributions began in November, 1921, still further provision for the relief of the unemployed was undertaken in the unemployed workers' dependents' act. This provided for temporary grants during a period of 6 months from November 10, 1921, toward the maintenance of the wives, dependent husbands and dependent children of workers already insured.[2] The cost of this was to be met from increased contributions from those who were still employed, their employers and the state, and benefits were to be paid at the same time and in the same manner as with the regular insurance.

The unemployment emergency continued into 1922, however, and in April, 1922, additional legislation was passed, to continue until June, 1923 the special benefits originating in 1921. Thus two more "special periods" during which benefits would be paid without reference to contributions made by the beneficiaries were created to take care of those whose right to benefit would be exhausted in April, 1922. The special grants for unemployed workers' dependents was also continued. The contributions and rates of benefits remained unchanged.[3] On April 24, 1922, there were 1,699,000 persons on the live registers of the labor exchanges.[4] Since some persons out of work are known not to register at the labor exchanges, this number underestimates the amount of unemployment in Great Britain in the first half of 1922.

The legislation of April, 1922 was based on the assumption that (a) up to the end of June, 1922, unemployment would not exceed on the average 1,900,000 persons a month, and (b) during the 12 months following June, 1922, the average number of insured persons unemployed would not be more than 1,500,000, counting, in both cases, the number of persons on part time at half their full number. This is nearly twice the number on which the 1921 legislation was predicated. Future

[1]*Ibid.*, November, 1921, p. 577; *ibid.*, December, 1921, p. 632.
[2]*Ibid.*, November, 1921, p. 570.
[3]*Ibid.*, April, 1922, p. 157.
[4]*Ibid.*, May, 1922, p. 208.

procedure depends, undoubtedly, on future industrial conditions. The fact remains, however, that even though the present ratio of unemployment is not exceeded in the months to come, when conditions do improve, the unemployment fund itself will have become bankrupt and there will be a loan of possibly 30 million pounds ($145,800,000) to be repaid with interest to the Treasury.

The Cost of Unemployment Insurance

The cost of unemployment insurance has risen steadily since its adoption in 1911, because of increasing numbers to come within the provisions of the scheme, because of the increased rate of benefits provided in 1920 and 1921, and because of the increased volume of unemployment in 1921 and 1922. In the table below are given figures supplied by the British Ministry of Labour, showing the aggregate contributions for each insurance year of the operation of the act, the total benefits paid each year, and the balance in the unemployment fund. Government expenditures for out-of-work donations are not included.

Year Ending July—	Contributions from—		Expenditure for Benefits	Balance in Unemployment Fund
	Employers and Employees	State		
	£	£	£	£
1913	1,622,038	378,000	208,318	1,648,907
1914	1,802,940	602,000	530,593	3,211,401
1915	1,649,641	546,666	418,701	4,724,124
1916	1,694,115	538,863	78,985	6,711,504
1917	2,699,932	746,372	34,312	10,075,467
1918	3,277,123	1,007,541	86,159	14,222,112
1919	2,871,640	994,402	152,721	18,030,356
1920	3,043,252[a]	912,701	1,009,126	21,287,648
1921	10,000,000[ab]	2,168,639	34,000,000[b]	None[b]

a Until November, 1920, the rates of contributions by employers and employees were equal; for later ratios, see p. 00 of the present report. In addition to the contributions paid by employers, employees and the state, in 1920–21 about £1,300,000 ($6,318,000) was contributed by Navy, Army and Air Service in respect of the insurance of discharged members of H. M. Forces.
b Approximate.

The following table shows the cost to taxpayers in Great Britain of unemployment insurance and the labor exchanges from 1912–13 to 1920–21, and the estimated cost for 1921–22 and 1922–23:[1]

[1] *Industrial and Labour Information*, February 24, 1922, p. 21.

Insurance Year	Administrative Cost (Gross)*	Appropriation from Unemployment Fund	Net Charge to Treasury on Account of Administration	Government Contribution	Total Charge to Voters
	(000's omitted)				
	£	£	£	£	£
1912–13	640	151	489	378	867
1913–14	769	246	523	602	1,125
1914–15	764	227	537	546	1,083
1915–16	834	231	603	538	1,141
1916–17	905	329	576	746	1,322
1917–18	1,168	445	723	1,007	1,730
1918–19	1,950	455	1,495	994	2,489
1919–20	3,613	459	3,154	912	4,066
1920–21	4,593	1,115	3,478	2,200	5,678
1921–22	6,039	3,250	2,789	6,720	9,509
1922–23	5,020	4,150	870	8,231	9,101

*Including Ministry of Labour administrative staff, payments to associations and expenditure borne on other votes, for buildings, rates, stationery and postage.

During the year ending December 31, 1921, 88 million individual payments were made as compensation for unemployment, totaling the following amounts:

Unemployment benefits	£57,500,000
Out of work donations	500,000
Unemployed workers' dependents grants	1,100,000
	£59,100,000

The income from contributions and interest on investment of unexpended funds was only £31,600,000 ($153,576,000) during the year. The difference between contributions, and benefits and the cost of administration was met by spending the accumulated balance in the unemployment fund, £22,700,000 ($110,312,000), and by borrowing £7,600,000 ($36,956,000) from the Treasury.[1]

The rising cost of unemployment insurance has not gone unnoticed in Great Britain. It has already been stated that as early as 1920 the act passed in November of that year made provision for special schemes in special industries, with the idea that insurance by industries, with special schemes of benefits and contributions, and for the control of employment, rather than insurance for the country as a whole, with flat rate benefits and contributions, and only the labor exchanges to check unemployment, would be more efficient and less expen-

[1]*The Labour Gazette* (Great Britain), April, 1922, p. 157.

sive. These schemes were not developed because of the greatly increased volume of unemployment in 1921, and the strain thus put on the administrative machinery of the unemployment insurance law. In February, 1922, however, one of the interim reports of the so-called Geddes Committee called attention to the possibilities inherent in the adoption of insurance by industries, pointing out how this would reduce administrative costs and also how perhaps in time it might make possible the elimination of the labor exchanges themselves through placing on each industry the responsibility for administering the law and seeing that its employees had work. The possibilities of adopting administrative, preventive and relief devices peculiarly suitable to specific industries also seemed fruitful. The Geddes Committee had little hope that economies could be effected in administering the unemployment insurance system as at present organized, and suggested that a committee of experts be appointed to explore the field and report on the best method of realizing the necessary curtailment of expenses.[1]

Following this suggestion from the Geddes Committee, the Minister of Health and the Minister of Labour appointed a joint committee to study the relation of health insurance and unemployment insurance and the possibility of reducing the cost of administering each by modifying the unemployment insurance scheme and consolidating certain administrative functions connected with both systems.[2]

Two interim reports of this joint committee had been issued by May, 1922. In the first, dated February 24, 1922, means were considered of reducing the cost of administering the funds by the labor unions,[3] and the second, dated March 17, 1922, reported that whatever their final recommendation regarding combining health and unemployment insurance cards, it was too late to do anything before the beginning of the next insurance year.[4]

The Minister of Labour also acted on the Geddes Committee suggestion that a study be made of administering unemployment insurance by industries, and, accordingly, sent a letter to the principal employers' associations and trade unions with

[1]Great Britain. Committee on National Expenditure. First Interim Report, London, 1922, p. 146. See also *Industrial and Labour Information*, February 24, 1922, pp. 21 ff.
[2]*The Labour Gazette* (Great Britain), March, 1922, p. 106.
[3]See pp. 46-47 of the present report.
[4]*The Labour Gazette* (Great Britain), May, 1922, p. 202.

a view to obtaining their opinion as to the best means of solving the problems which have grown up in connection with the administration of unemployment insurance. It is significant in this connection that "the Minister points out that a readjustment of the methods of unemployment insurance must involve questions connected with arrangements for securing employment."[1]

Before replies to this letter had been received and analyzed, the General Federation of Trade Unions had drafted and had introduced in Parliament a bill for the organization of unemployment insurance by industries. This bill has been opposed by the Labour Party because it provides that each industry carry its own risk, as contrasted with the present system whereby the risks are pooled, and also because, the Labour Party claims, the present system has not been properly tested.[2]

The executive committee of the Federation of British Industries has likewise taken action on this letter by appointing a committee to review the question of unemployment insurance for the purpose of determining their policy on the problem.[3]

The Government Actuary, who had been called on to look into the matter of reducing the cost of the unemployment insurance scheme, also reported in 1922. His suggestion was that the number of weeks for which benefits were to be paid should be reduced again to 15 a year, and that to receive this maximum a workman should have made at least 135 contributions within the preceding 3 years.[4]

The Geddes Committee, in the course of its investigations, came to the conclusion that so long as unemployment insurance in Great Britain is on its present basis, the principal function of the labour exchanges is to check the payment of benefits and not to place workers in jobs.[5] In this connection, a report made by the Committee appointed by the Minister of Labour, in June, 1920, to examine the working and administration of the labour exchanges and advise as to their future, is significant.[6] This committee also found the exchanges a necessary corollary of the unemployment insurance law, and that they were capable of considerable improvement, especially by way of reducing the cost and simplifying the administrative machinery of the

[1] *Ibid.*, March, 1922, pp. 106–107.
[2] *Industrial and Labour Information*, March 24, 1922, pp. 27–28.
[3] *Ibid.*, April 14, 1922, p. 15.
[4] *Industrial and Labour Information*, February 24, 1922, p. 23.
[5] Committee on National Expenditure, *op. cit.*, p. 146.
[6] *The Labour Gazette* (Great Britain), June, 1920, p. 293; *ibid.*, December, 1920, pp.665-666.

central divisional offices and the central claims and record offices. The advantages of specialization by industries within the local exchanges was emphasized, and the desirability of administering the insurance scheme by separate industries.

Compulsory Insurance in Other Countries

Several other European countries have adopted the principle of compulsion in regard to unemployment insurance since the enactment of the British law. Soviet Russia, in March, 1918, passed legislation for the compulsory insurance of all wage earners against unemployment. Instead of distributing the cost, as in the British act, the system is supported entirely by the employers, who are supposed to pay 4% of each pay roll into the insurance fund, or in the case of seasonal workers, 5%. Workers thus insured are entitled to draw four-fifths of their previous wages during their unemployment.[1]

A more comprehensive compulsory scheme was adopted by Italy in October, 1919. This, like the British law, provides for support by contributions from employers, employees and the state. It differs from the British law, however, in that agricultural workers are included, that higher rates of contributions are made by workers in seasonal trades than in those more regularly employed, and that both contributions and benefits are graduated in relation to the wages of the insured. The latter cannot, however, exceed one-half the normal daily earnings.[2] The Italian unemployment insurance law seems not to have met with great success and, in the face of public indifference or disapproval, thus far has not been well enforced.[3]

Austria, also, has a system of compulsory unemployment insurance, adopted in March, 1920. For the payment of benefits under this system, the state originally advances the funds, two-thirds of which are recovered the next year by equal assessments on employers and employees. The law provides that under conditions of prolonged and severe unemployment 50% may be added to the required contributions from employers and employees. The successful operation of this law seems to have been hampered considerably by the unstable financial situation of Austria.[4]

[1]Cohen, *op. cit.*, p. 364.
[2]*Ibid.*, p. 352; Turner, *op. cit.*, pp. 59, ff; *International Labour Review*, April, 1922, p. 673.
[3]*Daily Intelligence*, February 11, 1921, p. 14; *The Labour Gazette* (Canada), September, 1920, p. 1203.
[4]International Labour Office. Legislative Series, 1920, Aus. 1–7. Austria, Act and Instructions: Unemployment Insurance; *Industrial and Labour Information*, May 19, 1922, pp. 15-17; Cohen, *op. cit.*, pp. 358–363.

Germany has considered the adoption of a compulsory, contributory plan of unemployment insurance, applicable to the entire country and modeled on the British law. The proposed German legislation provides for the insurance of the same groups of workers as in Great Britain and for contributions at the rate of two-fifths each from employers and employees and one-fifth from the state. One of the principal difficulties thus far encountered in Germany in devising means of providing insurance along the lines specified is the lack of a nation-wide system of labor exchanges which are thought to be necessary for its administration.[1]

Conclusion

Careful study of the operation of the compulsory unemployment insurance law adopted in Great Britain in 1911 and modified in succeeding years to meet changes in social and industrial conditions produced by the war seems to warrant the following conclusions with special reference to the principles laid down in Chapter I.

Insurance against unemployment was undertaken in Great Britain to meet the needs of large numbers of *bona fide* workmen to whom unemployment brought distress and who had hitherto had no means of relief except the Poor Law or such measures as were applicable primarily to low-grade workers. In contrast to the continental unemployment funds, which were designed primarily as relief for highly seasonal trades or in time of acute distress, the British system had for its purpose the payment of compensation to workmen who year in and year out experienced a certain amount of time lost from work. It was in no sense an emergency measure. The actuarial basis on which contributions and benefits were established was, however, such as to permit the accumulation of a reserve sufficient to tide the fund over more than ordinarily bad years. The extreme depression of 1921 and 1922 in which this fund proved inadequate must be regarded only in the nature of a catastrophe for which no scientific provision could possibly have been made, and, to survive which, well-nigh unlimited resources must have been available.

Although workers who benefit from the insurance contribute toward its cost, the relief received has at all times been very little,

[1] *Daily Intelligence*, January 27, 1921, p. 5; *Les Documents du Travail*, Paris, March, 1922, p. 20.

relative to the cost of living, and for this reason it is often spoken of as in the nature of a dole.[1] In the years following the termination of the World War, the payments received as compensation for unemployment were, in fact, in large part pure gifts from the state, since in the extension of benefits under the insurance law beyond the statutory limits, and the grants to unemployed workers' dependents, no actuarial principles were observed, and the out-of-work donations were supported entirely from public funds. The main object in view was the relief of the constantly increasing distress due to lack of work. Although an attempt was made in 1921 to relate benefits to income on the basis of probable risk, the estimate of the volume of unemployment was only little less than half of what actually occurred and, as already noted, the unemployment fund was quickly exhausted and recourse to the state treasury was necessary.

This fact, however, proves nothing regarding the general actuarial basis of the unemployment insurance law, for two reasons: (1) the industrial conditions of 1921 were so abnormal as to constitute a national disaster, the extent of which no one could estimate for the purpose of devising benefits and assessing costs in an insurance scheme, no matter how sound its actuarial basis in normal times; and (2) changes in contributions and benefits were made after the unemployment insurance act had ceased to function as a pure insurance scheme and had become an agency for administering public relief.

So far as can be ascertained, the basis of the first unemployment insurance law in Great Britain was actuarially sound. It was based on the unemployment records of the unions in the trades originally insured, and during the first years of its operation no financial difficulties were encountered and a large reserve was built up. The bankruptcy of the unemployment fund in 1921 was due to three definite circumstances: (1) the acute depression, which threw large numbers of persons out of work very quickly and lasted for an unprecedented period, was in the nature of a disaster comparable to floods, fires, shipwreck, etc., to meet the consequences of which privately organized commercial companies are often forced to borrow to the extent of their credit; (2) just prior to the beginning of the

[1]See, for example, Hansard, *op. cit.*, July 9, 1920, Vol. 131, p. 1910. It should always be remembered, however, that social insurance benefits are designed to be less than full-time earnings in order to prevent malingering and stimulate individual saving for the contingencies. In the case of unemployment insurance, small benefits are supposed to offer incentive to the worker to secure regular employment.

industrial depression, eight million workers, who previously had not been insured, were admitted to the scheme, and after making a few contributions, were entitled under the law to draw benefits. This in effect trebled the potential demand on the fund, at a time when the actual demand was rapidly rising because of industrial conditions; and (3) as the depression continued, more and more persons insured under the Act exhausted their rights to benefits and were in distress. To meet this situation, provision was made for the payments to insured workers of special benefits without corresponding contributions. This increased the demand on the fund with no compensating accumulation of resources.

While the development of the unemployment insurance law in Great Britain shows how great was the temptation, in the face of popular appeal and real distress, to change its original purpose as an insurance scheme to one of public relief, there is no means of evaluating the measures which were adopted, in comparison with other means which might have been provided, had there been no insurance. Nor can an estimate be made of the extent to which the existence of the insurance law during the acute depression increased unemployment by failing to offer an incentive to employers to provide work or to employees to seek it. There is, of course, the strong probability that many, both among employers and employees, would feel that, having made their contributions to the unemployment insurance fund, their obligations had been met and their responsibility in either direction thereby cancelled. The outstanding feature of the perversion of the insurance law to the ends of public relief are its tremendous cost, and it may confidently be expected that changes in the details of procedure designed to reduce the cost will be forthcoming before long. How far this can be accomplished with the present system itself, however, is a serious question.

The extent to which this mounting cost served as a stimulus toward the reduction of unemployment by employers, employees and the state can not be measured. Nor can it be told how much of the total spent under the insurance law might better have been spent in other forms of financial unemployment relief, nor how much of the distress that otherwise would have arisen from lack of employment would have gone entirely unrelieved. Without answers to these questions, the extent of the abuse

of the unemployment fund can never be properly measured.

The outstanding criticisms of the British unemployment insurance law are that it is very costly and that it has done little or nothing to reduce the amount of unemployment. The preceding discussion explains much of the greatly increased cost of unemployment insurance. The administrative machinery itself, apart from the benefits paid, has also been found to be extremely costly.

The labor exchanges have not realized their full possibilities in placing workers and to that extent have not checked demands on the insurance fund. While some of the responsibility for this condition undoubtedly rests on the exchanges themselves, some of it also belongs on the industries of the country which have not cooperated with the exchanges in offering work through these agencies. For this reason, various committees that have studied the subject have considered the proposal that employers be compelled to register vacancies at the exchanges in order that the maximum number of positions might be available to insured workmen.[1] It must also be remembered of the labor exchanges, as of the unemployment insurance law, that the problems brought about by the war and reconstruction placed unusual and often very quick demands on the administrative machinery which made expediency rather than efficiency the main factor in their execution. These practices and other defects must be eliminated before the exchanges can take the part they should in the administration of the present unemployment insurance system.

In the payment of benefits the present system has also been found to be very costly. This has led to two proposals which are now being given careful consideration by official investigating committees. One is that the administration of the unemployment insurance law be combined in some way with the administration of the compulsory health insurance law, which covers identical workers, in order to simplify the machinery and reduce the personnel of each. The other is to change the unemployment insurance law itself so that each industry shall administer its own funds. In that way it is thought that conditions necessary for the separate trades could be adopted by each, that vacancies could be filled directly without the aid of the present labor exchanges, and that a simpler, more efficient

[1] *The Labour Gazette* (Great Britain), June, 1922, p. 247.

and less costly system would result. This proposal in its turn raises serious questions, however, with reference to the extent of the present organization of employers and employees in the separate trades and the success likely to attend on new associations. The continental experience indicates that such a plan is successful only where the workers are well organized in labor unions and that efforts to create societies especially for this purpose have usually failed. A large proportion of British wage earners are still unorganized, and large numbers of them do not belong to any industry or trade but drift from one to another as employment requires. Public labor exchanges, moreover, have been found to be a very essential part of the machinery of administering the continental laws.[1]

If, on the other hand, the proposed change contemplates an adjustment of benefits and contributions on the basis both of the probable risk of unemployment and the worker's customary wage, as in the Italian law, there is more to be said in its favor. Flat rate contributions apparently offer little inducement for many industries to improve conditions of employment and flat rate benefits seem to provide little incentive for many workers to seek employment elsewhere when their customary occupation is closed. If, in addition, the plan contemplates giving the individual employers within the industry whatever saving each effects by reducing his own unemployment risk rather than paying with his saving for the inefficiency of some other employer within the industry, the scheme will possibly be able still further to reduce the cost of unemployment insurance in Great Britain.

The second criticism of the British unemployment insurance law that it has done little or nothing to reduce the volume of unemployment can not be positively evaluated. Comparable data by which to make the necessary measurements before and after the adoption of insurance do not exist, and most of the years of the operation of the insurance law have been abnormal in the extreme. In this connection it should always be borne in mind, however, that insurance against unemployment was adopted in Great Britain after practically every other means of relieving unemployment had been tried. Furthermore, the unemployment rate in Great Britain in normal years had probably reached nearly the irreducible minimum before insur-

[1]United States, Bureau of Labor. Bulletin No. 76, *op. cit.*, p. 843.

ance was adopted. Such being the case, it is possible that very little significant further reduction could be expected.

Undoubtedly the British unemployment insurance law will be modified again and again as time goes on, both to reduce the cost of operation and to bring about more efficient service. The fact that the Minister of Labour has unlimited power to make such changes as conditions demand has the effect of producing better results or of leveling such criticism at the law and its regulations as will in time improve them, or, perhaps, abolish them altogether.

V

THE NECESSITY FOR PUBLIC UNEMPLOYMENT INSURANCE IN THE UNITED STATES

The foregoing survey of the development of unemployment insurance in Europe indicates that the successful application of public insurance to the unemployment problem involves the following prerequisites: (1) a real need for relief because of prevailing industrial and social conditions; (2) an adequate basis for the economical application of the insurance principle in an average unemployment risk, determined, stabilized and reduced to a minimum through the development of private cooperative relief and preventive methods; (3) a strong enough public stimulus in the prevailing sense of social responsibility and the general social attitude; and (4) the possibility of allocating the responsibility and burden so as to promote effort further to reduce unemployment. The absence of any one of these conditions has weakened by just so much the basis for an adequate insurance system.

The question regarding the advisability of adopting a system of public unemployment insurance in the United States can be scientifically and fairly answered only by examining conditions in this country with reference to those same points, which are equally determining for its successful application here. The present chapter and the two which follow outline the principal features of the situation in the United States as related to these main considerations involved in the theory and practical application of public unemployment insurance, and briefly survey the leading proposals for such insurance in the light of these considerations.

Bearing in mind that public unemployment insurance is a special form of cooperative, financial relief, the question of the need for such insurance in the United States resolves itself into several special problems: (a) how serious is the unemployment contingency; (b) to what extent is the individual able to provide against it and to what extent does he do so; (c) is it preventable, and if so, to what extent; and (d) what forms of private and public cooperative measures other than public

insurance are available for relief and prevention and how adequate are they?

The Unemployment Contingency

In a previous report by the National Industrial Conference Board[1] it was pointed out that reliable and comprehensive data on the extent of unemployment in the strict sense of the term, that is, unemployment due to lack of work as distinguished from interruption of earnings because of illness or strikes and lockouts, are conspicuously lacking in the United States, and that information regarding the amount of under-employment or part-time work scarcely exists at all. These defects must be remedied before there will be certain knowledge of the extent and frequency of unemployment, a knowledge which is necessary in determining not only its effects, but the need for provision of relief against it and the practical methods of making such provision.

An analysis of all the available data, as described in the report of the Conference Board referred to above, indicates that the average wage earner in the manufacturing and mechanical industries of the country loses about 12% of his total normal working time each year because of lack of work. This estimate, it should be noted, does not include losses due to part-time employment, but does include an indefinite amount of time lost from what is called labor turnover. The latter undoubtedly embraces some idleness voluntary to the worker or arising from discharge because of misconduct, inefficiency or other reasons. The estimate of 12% unemployment in a year among wage earners in manufacturing and mechanical industries, therefore, in some respects is probably too narrow and in others too broad. It cannot, moreover, be applied with any certainty to workers in occupations other than manufacturing and mechanical pursuits nor does it hold for special occupations within the industrial field, in some of which the rate of unemployment is much higher and in others much lower. Taken as it is, however, it indicates that normally at any time there are roughly 1,536,000 industrial wage earners whose incomes from their occupations have been cut off or reduced because of lack of work, and that among all industrial wage earners this unemployment totals an average of 35 days in the year for each.

Such an estimate suggests that the volume and rate of normal

[1]Research Report No. 43, *op. cit.*

unemployment is probably higher in the United States than it is in the European industrial countries. Estimates for the United States are derived in large part from trade union figures, as are also those for many European countries. The latter however, may be considered closer to the general average because of the relatively greater degree of organization among wage earners abroad. This assumption is supported by the fact that these trade union estimates have been taken as the basis for unemployment insurance plans in some of the European countries. According to these estimates the unemployment rate in Great Britain, Sweden, Norway, Netherlands, Germany, Denmark and Belgium in 1913 ranged between 2% and 8%, or an average for all countries of 3½%.[1] The estimate for the United States is more than three times this figure.

In other words, it appears that the United States, possibly because of its youth as an industrial nation, as well as its rapid, flexible and fluctuating industrial development, maintains a larger general labor reserve than is found in European countries, where the density of population and economic and social conditions generally tend to enforce a closer balance between labor supply and industrial needs. Abroad, the relation between the working force and the industrial machine tends to be fixed, so that in normal times a small labor reserve will provide for such fluctuations in employment as are due to seasonal factors, labor turnover, etc.

Several other considerations must be borne in mind in connection with the comparison of the extent of unemployment in the United States with that in European countries. The first is the relative degree of organization of labor here and abroad, which is important not only in relation to the accuracy of the comparative estimates of unemployment, but also in relation to the comparative volume of unemployment itself. It is possible that the degree of organization of industrial workers abroad has had an influence on the volume of unemployment there, on the one hand tending to reduce unemployment among the organized workers, especially the skilled, and, on the other, tending to increase the risk of unemployment among the unorganized. It must also be remembered that an accurate comparison of unemployment here and abroad would have to be made by industries, since not only do the risks differ but the degree of

[1] *International Labour Review*, July–August, 1921, p. 138.

organization as well. Finally, in a country where occupations are more fully organized than in the United States, as in Great Britain and some of the continental countries, and where in certain industries the workers control employment conditions so closely, opportunities for those who are temporarily idle to engage in supplementary occupations are relatively smaller than in a country like the United States. Consequently, in estimating the extent and need of provision against unemployment in the United States, account must be taken of the relative freedom of occupational variation and the opportunities for diverse kinds of work to supplement reduced income due to unemployment in customary occupations.

Individual Provision Against Unemployment

Accepting, however, with all the necessary qualifications, the rough estimate of 12% as the unemployment rate among industrial workers in the United States, it appears that the full-time yearly income of all industrial wage earners is reduced by about one-eighth because of unemployment. In order to estimate what proportion of the industrial wage earners are able to provide out of their earnings for this loss, it would be necessary to determine what proportion of them receive an income during the period of their employment which is at least 12% higher than their cost of living at a normal standard at the time and place in question. This can not be done with any certainty in the present state of knowledge regarding incomes and the cost of living in the United States, and the question must be left in the realm of controversy until more definite and comprehensive information is obtainable concerning the various factors entering into it. These factors are, in general, (a) differences in wages among various industries and localities; (b) differences in seasonality, working conditions and plant operation among various industries; (c) differences in standards and cost of living among various classes of wage earners and various localities, and (d) the volume and source of savings. The reports of the National Industrial Conference Board on wages and the cost of living[1] throw some light on these questions, but do not as yet permit of a definitive application to the general problem.

[1]National Industrial Conference Board, Research Reports Nos. 9, 14, 17, 19, 20, 22, 24, 25, 28, 30, 31, 33, 35, 36, 39, 41, 44, 45, 46, 47, 49, 52; Special Reports Nos. 7, 8, 13, 16, 19, 21.

Such knowledge as exists, however, indicates that whether or not the relation between income and the cost of living permits of provision for unemployment among a larger number here than abroad, there probably exists at all times need of some form of cooperative provision for the unemployment contingency among a portion of the industrial wage earners of the United States. At best, this is only a conjecture, however, and, lacking further information, must remain so, as must also any estimate of the extent to which those able to make provision actually do so through private savings or other cooperative financial measures for relief.

Preventability of Unemployment

If the normal unemployment rate in the United States is, as has been indicated, so much higher than abroad, the question arises whether, regardless of the provision for relief from its losses, the rate can be reduced and if so, how and by how much ? To reduce the extent and frequency of unemployment would obviously reduce the proportion of wage earners unable or failing to make provision against it, whatever this proportion may be, and would thus reduce the amount and alter the character of the cooperative provision, public or private, that might have to be made for them.

On this point the general opinion is that the average unemployment rate can be greatly reduced in this country by private and, probably, by public effort. The causes of unemployment, as outlined in the report of the National Industrial Conference Board previously referred to,[1] are in large part amenable to treatment. A considerable proportion of them proceed from conditions within the individual industrial establishment and are both personal and impersonal in nature.

Where the personal factors, such as strikes and lockouts or disability, enter into the broad contingency of unemployment, they can be reduced through better methods for lessening friction and developing cooperation between employers and employees, and through plant and community efforts to decrease the amount of illness and accidents by improved sanitary methods, safety devices and education.

Again, the causes of unemployment due to impersonal factors within the plant, such as faulty factory organization, high

[1]Research Report No. 43, *op. cit.*

production costs, ineffective sales methods, lack of proper materials and equipment, high labor turnover arising from improper personnel administration and personal characteristics of employees, inefficiency of employees and displacement of hand labor by machinery—all these are susceptible of alteration or elimination wholly or in part by private individual or cooperative efforts of employers, employees and organizations devoted to the study of these problems.

As management improves and applies its knowledge to providing greater regularity in the supply of raw materials, standardizing products, coordinating the activities of sales and production departments, reducing labor turnover and removing labor inefficiency through education, and as this improved functioning of individual management is extended by cooperative activity to the encouragement of diversity among local industries, centralizing local labor markets and developing systems of transfer and promotion, an incalculable but doubtless large reduction can be made in the unemployment rate. These individual efforts of industrial managers may also be joined with those of workers' organizations and of middlemen and financiers in their own fields, and with those of the community in education and raising the morale and efficiency of the workers.

Still further causes of unemployment arise from influences external to the individual plant, such as over-expansion of industry, poor coordination of wages, profits and prices in the whole industrial system, seasonal variations, wasteful systems of commodity distribution, lack of coordination between transportation and other industries, and deficient labor placement facilities. Certain political factors are also important, such as those arising from governmental policies in connection with immigration, fiscal procedure, tariffs and international relations.

In a young and rapidly growing country like the United States, it was perhaps inevitable that close attention to these matters, as related to unemployment, should have taken a place second to the desire for industrial expansion, and that in consequence the full potentiality of stabilizing employment by applying individual and cooperative scientific study and organization to them should not yet have been realized. There is little doubt that through well directed private and public effort these factors making for unemployment may be so controlled that its rate in this country may be largely reduced.

So far as the normal fluctuations of industrial activity affect employment, these may be approached by special individual and cooperative measures to reduce the seasonality and stabilize output of the more variable industries, to manufacture for stock, to improve sales methods, to seek more diversified markets and manufacture more diversified products, to introduce equipment aimed to counteract the effects of climatic changes, to establish local central sources of labor supply, to develop more diversified industries in communities and to standardize products.

The reduction of unemployment due to the longer business cycles is approachable through the establishment of a basis for control by means of better information obtained from standardized reports on industrial conditions, the coordination of costs in transportation and other industries, the promotion of foreign trade through the extension of credits, stabilization of exchange and deflation of prices and the improvement of labor-placement facilities. These possibilities of preventing and reducing unemployment have been outlined at greater length in the Board's report on unemployment, in which their significance was pointed out in detail.[1]

Broader than the economic factors, the control of which may influence employment, are the political policies mentioned above, which have a far-reaching effect upon general conditions in industry. Regarding these the report referred to says:[2]

"Immigration may be encouraged or restricted to such a degree as to increase or relieve unemployment. Government fiscal policy and procedure may place a disproportionate present burden upon industry or liquidate the national debt gradually. The forms of taxation applied may result in either equitable or inequitable distribution of the burden of government needs. The fiscal procedure in connection with appropriations and taxation may either be regulated by scientific budgetary methods or continue under a decentralized system permitting 'log-rolling,' wasteful expenditure, and a disproportionate drain upon industry. Tariff rates may be applied or changed so as to be conducive to stability or uncertainty in industry. International relations may either hinder or encourage international trade and thus affect the continuity of production within nations. In relation to all these matters wiser policies may be carried out so as to bring stability in the industrial system."

Even where these more fundamental measures are lacking, it is generally recognized that unemployment is susceptible of considerable reduction by such special measures of individual or cooperative character as the undertaking of rearrangements

[1]For an account of what has been done to regularize employment in one highly seasonal industry, see Dennison, Henry S., "Management and the Business Cycle," *Journal of the American Statistical Association*, March, 1922, pp. 20–31.

[2]Research Report No. 43, *op. cit.*, pp. 90–91.

and repairs and other devices within the plants for retaining workers, by forced shifting of manufacturers' price reductions through retailers to consumers, by special efforts to stimulate private building and by the undertaking of public construction work. As pointed out in preceding chapters of the present report, even in European countries where normal fluctuations of employment have been lessened, these and other emergency measures are necessary to lower the peaks of unemployment.[1]

These emergency measures, however, are costly in proportion to their urgency and to the usually unfavorable conditions under which they are applied, and are to be regarded as a last resort, when more fundamental preventive measures are lacking or have failed. From this point of view they bear the aspect of relief rather than preventive measures, since they involve essentially a special financial outlay, and their excessive cost is considered warranted by the emergency and is borne directly by some special group or by the community.

Adequacy of Private and Public Relief Measures

Consideration of these measures in relation to the need for public unemployment insurance in the United States leads directly to the question: What other forms of private or public cooperative relief are available in the United States, and to what extent do they meet the need?

In surveying the situation here, there must be excluded at the outset such special, occasional emergency measures as were discussed above in connection with the possibility of prevention, like public works, as well as all forms of private or public charity. Although these have been invoked in emergencies by many private and public organizations the country over, in relation to their own local problems, no reliable information exists on which to base an estimate of the extent and adequacy of these cooperative relief measures. In general, they are unstable and uncertain, are based on no definite plan or allocation of responsibility, are relatively costly and depend ultimately on a public or private sense of responsibility strong enough to make the cost a secondary matter. In short, they are applicable and are applied only in special emergencies and are unimportant in relation to the general continuing unemployment problem.

[1]See, also, Griffith, Sanford. "Productive Unemployment in Germany." *The Survey*, December 24, 1921, pp. 463–464.

They leave the need for permanent cooperative private or public measures largely unaffected.

The more permanent and stable cooperative relief provisions for the unemployment contingency available in the United States are of two classes: (1) mutual aid funds of trade unions or other workers' organizations; (2) benefit funds of employers.

Trade Union Benefits: As stated in Chapter II, this type of cooperative relief for unemployment is so limited in extent and casual in character in the United States at the present time as to be of little importance in relation to the total problem. Such relief methods are, in general, loosely administered and inadequate, the relation between benefits and contributions is unstable and uncertain, and the funds in many cases are subject to use in other contingencies such as strikes. The fraternal societies in the United States do not provide for unemployment as such, and the provident loan associations afford emergency relief only on the supplying of acceptable collateral.

It is probable on general grounds, however, that the trade union members in the United States are relatively better protected against the unemployment contingency through the very fact of their membership in organizations than are the unorganized workers, partly because, in the first place, they are likely to be in occupations where higher rates of wages are paid than are the unorganized workers, and secondly, because there is some degree of mutual aid inherent in the organizations, either through systematic facilities for placing idle workers, such as are afforded by the larger unions, or through some form of direct assistance to unemployed members by the union itself or by individual members.

On the other hand, it may be contended that the fact of organization increases the likelihood of strikes, and thus is a direct factor in increasing the risk of unemployment. Losses due to strikes, however, are considered as solely the responsibility of the organization, and no public cooperative relief measure contemplates providing against them as an unemployment contingency. The average time lost because of strikes and lockouts is very short compared with that lost through other causes of unemployment.[1]

It should be noted finally that, whatever the difference between the need of relief among organized and unorganized

[1]Research Report No. 43, *op. cit.*, pp. 38–39.

workers, the degree of organization of industrial workers in this country is relatively smaller than is the case abroad, and the provisions they have made for relief against unemployment are so far inferior as not to affect the question of the general need for unemployment insurance here at all.[1]

Unemployment Relief Plans of American Employers: No definite information is as yet available regarding the extent of unemployment relief plans established by employers in the United States.[2] Those concerning which the National Industrial Conference Board has reports vary in form from straight insurance carried by a commercial insurance company or carefully developed insurance plans operated in connection with preventive measures, to emergency relief funds. One type provides for insurance by a commercial carrier, another for a distinct private fund based more or less on an estimate of the probable risk and with a definite plan for using this fund. Another type provides a wage guarantee derived from a fund proportioned to the payroll and to the probable under-employment. A fourth type provides relief by guaranteeing employees a fixed income, regardless of the probability of layoffs, while a fifth provides for advances to idle employees on future wages. In addition, individual employers have established special relief measures, to meet specific emergencies, but these are temporary in character and unmeasurable as to their cost and efficacy.

Several plans of unemployment relief introduced by American employers have been widely discussed and are briefly described below as illustrations of provisions by employers which have been tried and which may in time be extended as their success is proven by longer experience. It is not claimed for these measures that they have as yet been widely enough adopted to have greatly affected the amount of provision against unemployment available for industrial workers in the United States, but it is important to determine whether they have been successful in relieving or reducing unemployment within their sphere of application, and whether their cost, benefits and effects are such as would appear to make their extension practicable. In this way some conception may be formed of the possible need of public unemployment insurance, even though

[1]About 12% of American workers were members of labor organizations in 1920; in Great Britain in 1917, between 40% and 50% of the workers were said to be organized.

[2]The National Industrial Conference Board has under way a general investigation of various forms of industrial-betterment work, which will include such provisions for unemployment relief as have been made in individual industrial establishments.

these forms of private cooperative relief and prevention were more widely extended.

One of these plans approaching the insurance type is provided by a large manufacturer of paper goods and novelties. It was developed in connection with an extensive and carefully worked out scheme for regularizing employment and stabilizing production. Although this company manufactures goods for which the demand is highly seasonal, by various devices it has succeeded in leveling the seasonal peaks and reducing unemployment to a minimum. These measures are involved with the unemployment relief provisions, in a general plan which includes:[1]

1. Reduction of seasonal orders by getting customers to order at least a minimum amount well in advance of the season. This has been accomplished partly by persuasive salesmanship and partly by promising a greater security as to delivery....
2. Increasing the proportion of non-seasonal orders with a long delivery time....
3. The planning of all stock items for more than a year in advance....
4. The planning of inter-departmental needs well in advance....
5. The building up of out-of-season items and the varying of lines so as to balance one demand against another.
6. Giving vacations without pay to those who desire to take time off.
7. Discharging workers regarded as below standard.
8. Manufacturing goods for stock.
9. Transferring workers from one slack department to another needing more workers, or to the educational division for vocational training.
10. Transferring operatives to outside industries.
11. Use of the unemployment fund either for providing jobs within the plant or providing relief for discharged workers.

In 1916 the company set aside from its profits an unemployment fund, which has accumulated over a period of approximately five years, and in 1921 totalled about $140,000. Up to the beginning of that year the demands upon the fund were slight because of the small amount of unemployment and only $9,500 was expended. Regarding the status of the fund the personnel division of the company has stated:[2]

"In the first place, it is not charity; it has a business basis and must rest upon considerations of mutual advantage, with mutual self-respect. This business basis it must find in securing and retaining better employees, in better work on the part of the employees, due to their release from the risk of periodic total loss of income through unemployment, and in a steadier working force, due to the abrogation of the risk that the employees will find permanent work elsewhere during times when he is unemployed.

[1]Dennison Manufacturing Company. Personnel Division. "Plan in Use by an American Industry for Combating Unemployment." *American Labor Legislation Review*, New York, March, 1921, pp. 54-55. See also, "Job Security at Dennison's," *The Survey*, January 14, 1922, p. 595; Dennison, Henry S. "Depression Insurance: A Suggestion to Corporations for Reducing Unemployment," *American Labor Legislation Review*, March, 1922, pp. 31-36; *ibid*, "Management and the Business Cycle," *Journal of the American Statistical Association*, March, 1922, pp. 20-31.

[2]*American Labor Legislation Review*, March, 1921, *op. cit.*, p. 56.

"In the second place, our establishment of an Unemployment Fund is not a guarantee either of permanence of employment or of maintaining of regular wage rate. In the lack of knowledge on the subject, we provide a fund, setting emphasis on its wise use and stating plainly that we do not guarantee its renewal."

In 1920 a formal plan for using the fund was worked out and has been in effect since that time. The fund may be used for payments to laid-off workers, for making up the loss in wages due to transfer of workers from one department to another or to training or to taking a lower paid job elsewhere; or as noted above, it may be used to provide extra work within the plant in making up goods for stock. The limitations put upon the use of the fund are that certain of the provisions hold only while it remains above $50,000 and the total disbursements during any twelve successive months do not exceed $50,000.

The administration of the fund is in the hands of a special committee chosen equally from representatives of the employees and representatives of the management, and the fund itself is held by three other trustees. The committee has full power to use the fund as the rules provide, with such modifications or new principles as are decided upon by the works council and management jointly. It is supposed to study methods of relieving and preventing unemployment and to recommend those which it may consider desirable. It keeps close control over payments and gives special consideration to each case.

In general, the plan provides that persons who are unemployed for one half day or over shall be paid 60% of their usual wages if they are without dependents and 80% of their wages if they have dependents. Payments continue for six consecutive days and then special consideration is given to each case by the committee in charge of the fund. Effort is made to have the layoffs as short as possible and the fund is clearly aimed to provide for the smaller and irreducible fluctuations in the working force. In certain cases, the cost is not charged to the fund but to operating expense, an attempt being made to reserve the fund for provisions against true unemployment. On the other hand, workmen who are discharged because of permanent change in methods or who for a similar reason find themselves permanently without work, are given two weeks' notice instead of the usual one and the pay for this extra week may be charged to the unemployment fund. Strict control is kept over the pay-

ments in relation to the workers' efforts to seek other work when laid off. The provisions of the fund do not apply to persons who leave voluntarily or are discharged for cause, to shutdowns due to forces over which the management has no control, such as fires, storms or civil or military order, or to employees who are hired for a special period only.

Payments for unemployment relief began in the fall of 1920 and up to November 8, 1921, $25,752 had been paid out. On January 2, 1920, the company had 2,460 employees and on November 1, 1921, there were 2,671 employees. During the first ten months of 1921, 162 persons were discharged at the main factory, while 316 left of their own accord.[1]

In reply to an inquiry from the Conference Board in November, 1921, as to the effects of the plan on efficiency of production, and on the business in general, the president of the company stated that "with relief benefits ranging from 50% to 90% of the average pay, the scheme has cost so far just 1% of the pay-roll. It should be noted, however," it is added, "that our preparations for the depression of 1921 enabled us to pass through it with relatively little need of curtailing production." As to the effects of the plan on efficiency of production and on the business in general, results were not so conclusive. The statement reads:

"We haven't the faintest idea, since unemployment insurance was only one factor out of a number which influences the efficiency of our men. Moreover, our means of measuring the efficiency of the workers as a whole is not very satisfactory, on account of the great variety of our product. During the time when the payment of unemployment relief was going on freely, we heard much from our employees which gave us grounds to believe that the usual spinning out of the job was almost entirely obliterated. We do not look to unemployment relief as the most powerful influence in direct increase of efficiency. Our experience in the past has been that during lay-off periods we lost permanently the more capable employees, and especially those who would later be advanced into the managerial ranks. We look, therefore, to unemployment relief to increase the productivity through reducing soldiering and through the steady increase in quality of our crew."

The plan of unemployment relief in operation by three textile finishing companies is essentially similar to the plan just described, in that from the net profits of each company a fund is set aside to provide relief in time of unemployment. It is part of a general scheme for the distribution of funds between capital and wages; is administered entirely by employee representatives; the payments are for a longer period and are not so closely regulated and related to preventive measures as in the first plan.

[1]*The Survey*, January 14, 1922, p. 595.

According to this plan, two sinking funds were established after current wages of labor and interest on investment were paid. "These funds are designed to make the wages both of capital and labor constant. . . . The sinking fund for capital consists of 15% of earnings over capital's wage of 6%. This fund is designed to make up the deficit below 6% in the earnings of lean years."[1] The second sinking fund is called the unemployment guarantee fund. It consists of 15% of the net earnings remaining after the payment of wages to both labor and capital. From it, all those on a weekly or hourly basis of pay receive half pay for time lost due to employment for less than 48 hours per week. These payments are to be continued until the fund drops below $50,000 or a figure similarly proportionate to the total payroll, after which half pay is to be given for time lost due to employment for less than 35 hours per week. At least 24 hours' pay per week is supposed to be guaranteed until the fund is exhausted.

During 1920, at the plant of one of the associated companies, about $60,000, or 5% of the total annual payroll, was thus distributed. About 750 operatives participated, receiving an average of approximately $80 each during the year. At the original plant, the payments for unemployment relief, from January, 1920 to November, 1921 amounted to 1.5% of the payroll. Between 400 and 500 operatives shared this distribution, receiving an average of $35 each.

Because these companies sell service and not merchandise, they have not been able greatly to regularize their work.[2] In consequence, unemployment in these plants is said to have been unusually severe. "Notwithstanding this fact," the president of one of the bleacheries says, "the testimony both from representatives of the operatives and from the managers of the plants is unanimously to the effect that the unemployment funds have so far adequately protected the operatives."[3]

As to the effects of the plan on efficiency, the president of the company says that, while "it is impossible to give a definite percentage of increase of production due to insurance . . . since 1917, our production per man-hour has increased 30% due to the increased efficiency of our employees. I believe that the

[1]Hatch, H. A., "An American Employer's Experience with Unemployment Insurance," *American Labor Legislation Review*, March, 1921, pp. 43–44.
[2]Hatch, H. A., *op. cit.*, p. 44.
[3]Hatch, H. A., "Insurance Against Unemployment in a Plant." *Proceedings of the Academy of Political Science*, New York, January, 1922, pp. 23-24.

insurance factor is responsible for enough of this increase to cover the cost."[1]

In the employers' provisions against unemployment so far discussed, the maintenance of employment or a subsidy to earnings is regarded as a direct charge on the industry, the cost of which is met out of a definite fund, paid out as the need arises in individual cases. It is deemed justified by returns to the company in improved working force and efficiency, and in other indirect ways. These plans are not true insurance because they are not based on actuarial principles and the amounts put into the funds or the benefits paid out are not definitely related to the probable risk.

A number of other employers in more or less seasonal industries have recognized the problem of unemployment and attempted to meet it by guaranteeing earnings over a given period, the cost of which is met either from a fixed fund or from general earnings of the companies. The object sought in these cases appears to be not only the protection of the workers, but also the maintenance of plant efficiency by freeing them from anxiety and preventing the disorganization of the working force.

The most comprehensive plan of this type was instituted in June, 1921, by agreement between the workers and manufacturers in the Cleveland ladies' garment industry. Like all the clothing trades, this is a highly seasonal industry, and in the joint agreement of 1919 between the union and the manufacturers in Cleveland, these interests, which cover about 6,000 employees, or from 80% to 90% of the workers in the local market, pledged themselves in general terms to a united effort "to promote all interests by increasing the continuity of employment." After much discussion of the possibilities in this direction, the Board of Referees governing working conditions in the industry of that city, in April, 1921 rendered a decision that the industry should guarantee to its regular workers twenty weeks of work in each half year, as contrasted with the thirty-five weeks of work a year which the average employee in the industry had generally hitherto received. In its decision the Board stated:[2]

"We....believe that the time has come when the regular workers in the industry are entitled to a minimum guaranteed period of work or compensation for lack of it. Such a guarantee is a proper and necessary burden on the industry . . ."

[1]*Idem.*

[2]Halsey, Olga S., "Employment Guaranteed," *The Survey*, January 14, 1922, pp. 594-595.

The essential features of the plan put into effect in accordance with this decision, as described by the impartial chairman of the Board of Referees by which it is administered, are as follows:[1]

"It differs from unemployment insurance in that its primary purpose is not to create a fund which shall increase from year to year, to pay the workers while they are idle, but is to provide a sufficient incentive for the manufacturers to keep their workers employed. Each manufacturer guarantees to his regular workers twenty weeks of work during each half year. If he fulfills that guarantee, his obligation is met, but if he does not provide twenty weeks of work for the unemployed part of those twenty weeks, his employees become entitled to two-thirds of their minimum wages, with this limitation—that no manufacturer shall be liable to his workers for more than 7½% of his total direct labor payroll; to insure the payment of the proper amount each employer reports this unemployed time of his workers, and deposits with the Impartial Chairman each week, an amount equal to 7½% of his total direct labor payroll for that week. There is no general market fund to pay the workers from, for it would be unfair to use the money of the manufacturer who fulfills his guarantee, to pay the workers of another manufacturer who does not. The fund of each manufacturer is kept separate, and it is provided that instead of letting the funds increase from year to year, each manufacturer receives back, at the end of each six-months' period, so much of his own fund as has not been needed to pay his workers for unemployed time."

The plan is designed, therefore, not only to provide relief but to give both employers and workers an incentive to maintain employment. The manufacturer who provides full employment, and thus avoids drawing on his 7½% guarantee fund, saves that amount on his labor cost. He secures his labor for 7½% less than his less efficient competitor who, by failing to keep his plant going, has to pay for unemployed time. As for the worker, he receives no compensation for the first six weeks of unemployment, for the employer guarantees only twenty weeks work in six months and does not begin to draw on his guarantee fund until the seventh week. The worker therefore tends to look for temporary employment elsewhere. After that, his unemployment pay amounts to only two-thirds of the minimum union rate as contrasted with his possible actual earnings, which often exceed the minimum. Therefore, in this period also, he would probably be moved to seek outside employment to supplement the unemployment pay.

The authority cited above says:[2]

[1]Mack, William J., "Industrial Statesmanship." *The New Republic*, New York, November 16, 1921, pp. 346–348. See also *ibid.*, "Safeguarding Employment: The Cleveland Plan of Unemployment Compensation," *American Labor Legislation Review*, March, 1922, pp. 25–30; "Continuing Agreement between The Cleveland Garment Manufacturers' Association and The International Ladies' Garment Workers' Union and The Hon. Julian W. Mack, Samuel J. Rosensohn and John R. McLane, Acting as a Board of Referees," Cleveland, December 24, 1921.

[2]Mack, William J., *op. cit. The New Republic*, November 16, 1921, p. 346.

"Manufacturers, to get the benefit of this provision, have sought orders this year which they formerly did not try to get—even orders on which the manufacturers make no profit, involving directly a saving of 7½% of their labor costs and a considerable overhead. Indirectly, the employers gain by the increased stability of their labor force—for continuity of employment means increased production per employee, and a much smaller cost of labor turnover."

The general success of the plan may be indicated by its renewal in December, 1921, after six months trial and its extension for a year, despite the fact that it had been initiated and operated in a very unfavorable period. In May, 1922, an arbitration board instituted a wage reduction of 10% for workers in the ladies' garment industry in Cleveland, provided that employers who put this reduction into effect set aside at least 25% of their payroll each week as a guarantee that if less than 41 weeks of work were available, the full minimum rates would be paid during the period of idleness, up to 41 weeks. Employers who did not make the 10% wage reduction in May, 1922 were privileged to continue the deposit of 7½% of their weekly payroll against which two-thirds of the minimum rate would be drawn by idle employees as under the agreement of December 24, 1921.[1]

It is reported that fewer than one-half of the manufacturers have applied for the new wage rates, which entail the greatly increased guarantee to the unemployment fund. The majority have not reduced wages and are continuing to deposit with the fund the 7½% of their pay roll monthly. The manager of the garment manufacturers' association in Cleveland summarizes the experience with this plan to June, 1922, as follows:

"In principle this plan is sound. It is practical and simple in operation and last year it proved to be very effective. There are difficulties however in it. One of these is the fact that fill-in work must often be done at a loss greater than the saving from the fund. Another is that the workers expect to be able to earn as high a rate on work taken at a loss as they do upon the regular product of a firm which is sold at a profit. However, the movement is along the right lines and places the burden of unemployment where it belongs, and yet limits the liability of the manufacturers to an amount which can be carried by their product."

In May, 1919, a company manufacturing abrasives undertook to guarantee employment for a certain period by a simple and sweeping agreement. After a little more than two years' trial the scheme was discontinued. In describing this plan and the experience with it, the production manager of the company, writing to the National Industrial Conference Board soon after the plan was dropped, says:

[1]Daily newspapers, May 16, 1922, ff., verified by correspondence.

"Our original plan was very simple. It simply stated that the company agrees to protect its regular employees against unemployment. Therefore, the regular employees are guaranteed the opportunity to work fifty-two weeks during the year covered by this agreement, and, if necessary, for this purpose will perform such reasonable work as may be assigned to them. One year's continuous service shall be deemed necessary to establish a man as a regular employee entitled to the benefits of this article.

"Our idea in putting this into effect was that it would remove from the workmen one of the principal liabilities which they are always facing, that of complete loss of revenue for certain periods. In return we expected to obtain as advantages the stabilization of wage demands, since wages did not have to cover unemployment conditions, stabilization of employees and the development of better understanding and cooperation.

"Instead of increasing the cooperation and better feeling, this clause introduced contention. Instead of being interpreted in a broad way, some of our labor leaders applied it to some features which it was not intended to cover. For example, they interpreted the guaranteed employment clause to mean also guarantee of the highest rate of pay which a man might reach during the year, even if a man changed his job. This same condition was advanced even where departments were discontinued. Its provisions were even applied to men reduced for discipline. The removal of the necessity of holding a job caused some men to let down on their efforts and attitude, particularly men employed on fill-in jobs during shutdown periods. This is a reflection of the very general observations that the guarantee of a job removes an important incentive for good work. It could very well result in the gradual building up of a non-releasable force of poor morale.

"Also, since we put this into effect, it became apparent that it would operate only from an economic standpoint in the case of a very well-established business with a very stable market for its adoption. We have in our group of industries one plant where this condition holds fairly well. We have discovered that some of our other industries are very dependent on outside economic conditions, over which we could possibly have no control.

"It is quite evident to us after our experience that any scheme to insure against unemployment has got to be drawn up in such a way that both the men and the companies have mutual interest and responsibilities in making it, so the interests of both parties lie along so nearly the same direction that misunderstandings and misinterpretations can be fairly well avoided.

"This statement would certainly be misleading if it left the idea that our scheme was misapplied or received in poor spirit by all of the men. We know that a great majority of our employees could have respected and worked out the scheme successfully as far as proper attitude and cooperation would have counted, and, as is so usual in every effort, it is the great minority that brought the difficulties of the scheme to light."

Another company has attempted to stabilize employment by putting certain classes of wage earners, not formerly so paid, on a salary basis instead of a daily wage basis. This company, manufacturers of fine writing paper, has a guaranteed wage scheme which applies to those who have been continuously in their plant for five years or more. In case the hours worked during any period are sufficient to permit earnings at the regular wage to equal or exceed the amount of guaranteed salary, employees are paid at the regular rate. If, however, by reason of plant shutdown, the hours worked are not sufficient to make the earnings equal or exceed the amount of guaranteed salary,

employees receive this guaranteed salary for a period of four weeks, payable weekly. The amount of guaranteed salary is subject to adjustment under any conditions affecting the general adjustment of wages. Whenever the plant is shut down on any regular working day, employees are expected to report for duty as usual, unless specifically excused, and it is understood that they will be willing to do such work other than that on which they are regularly employed, as may be mutually agreed upon. The company reserves the right to terminate the agreement under any condition which, in the opinion of the company, may make the latter powerless to continue it. It is not the intention of the company to exercise this right except in cases of serious fire or other calamity, or conditions not under its control, and only after four weeks' notice. It was reported in the spring of 1922 that the plan had proved entirely satisfactory to both management and the workers.

Three associated corporations operating four plants under a single management in an eastern city have organized a welfare association of their employees through which it is planned to provide group life insurance, sickness and accident insurance and unemployment insurance. Membership in the association is limited to workers in the production departments of the companies who have been in the employ of any one or more of the companies for a period of not less than one year. The dues paid by employees to the welfare association consist of 30 cents weekly, 15 cents in payment for the life insurance and 15 cents toward the sickness insurance; the company makes an equivalent contribution of 30 cents per week for each insured employee. The expense of the unemployment insurance is, on the other hand, borne entirely by the company. No employee, however, is eligible to receive unemployment benefit who has not joined in the life and sickness insurance plans.

The unemployment insurance in this instance takes the form of a guarantee by the three companies to pay to each member of the welfare association, who has paid his dues to the association and is in good standing, and who may be unemployed because of inability on the part of the management to provide him with work of any kind, a sum sufficient to insure the member a minimum income of $9 a week. No employee may receive more than $72 unemployment benefit in any calendar year.

The organization, which is engaged in the manufacture of paper, states that its experience over a long period of years shows that its unemployment risk is not high, since it has generally been able to provide regular employment for all on its payroll. At certain times, however, there is more or less idleness in some of the departments and this has been especially the case within the last two years. The management has felt that the employees who have contributed to the upbuilding and welfare of the organization are entitled to a claim on the organization for permanent employment, and failing such employment, it is under obligation to see that its employees are assured of some income. It adds further that the plants are almost completely unionized, but that the officers of the union with whom the management deals in fixing wages and working conditions have endorsed the plan and indicated their willingness to cooperate with it.

Another company employing 150 workers in a specialized industry established a salary basis of wage payment as a kind of wage guarantee and unemployment relief early in 1921 when short time prevailed. This plan was maintained even when the plant was entirely closed down. The company is engaged in diamond polishing and has been severely affected by the industrial depression. The plan was adopted, however, in order to prevent the disorganization of a highly skilled working force requiring long training and assembled at great cost.

The married men employed in the plant, thirty-one in number, receive 25% to 50% of their pay at bi-weekly intervals, depending on the rank they hold and the nature of their work. The younger unmarried men receive 25% of their normal pay and are also paid at bi-weekly intervals. During their unemployment by this company, all of these men are free to take any other work they can find or to spend their time in any manner they please. They are under absolutely no obligation to the company except to keep it informed of their whereabouts. The company, however, reserves the right to terminate its payment of wages to any man who, it is learned, does not intend to rejoin the organization.

The women employed by this company are divided into two general groups. The first of these, by far the smaller, the office clerical staff, are paid 50% of their usual earnings during any period when the plant is shut down. For each woman

employed in the polishing department, on piece work, the company has set aside 20% of her average weekly earnings in 1920, but during any period of unemployment this money is not to be paid out until the factory reopens, when she will receive the total sum due, in five monthly installments. This method was adopted because of the possibility that some of the girls, after having been paid regularly during the shut-down, would not, on account of marriage or for other reasons, return to work.

These out-of-work pensions, as they are called, are said in no way to encroach upon the company's working capital. Their payment has been insured by the investment of certain sums in Treasury certificates, the income of which will be sufficient to cover all the expenses incidental to the maintenance of this system.[1]

Another company, manufacturing agricultural implements, has provided for direct relief in kind to such of its laid-off employees as were ascertained to be in need of assistance during the depression of 1921. After investigation, an order was issued to a local merchant for such things as the worker or his family needed. This local order authorized the merchant to bill the company for the goods, and to the order was attached a memorandum signed by the recipient of the relief, agreeing that the cost of the provisions was regarded as an advance on future earnings, to be paid back on reemployment, without interest in installments each payday.[2]

This is, of course, more clearly a form of mere emergency relief, systematized to reduce the cost, than are the other plans discussed above. Its outstanding difference, aside from the probably temporary nature of the plan, is that the employee is expected ultimately to bear part or nearly all of the cost, and that it contains no insurance or preventive features whatever.

At the other extreme among relief plans is that recently adopted by an important railroad system, a transportation and coal concern operating nearly 900 miles of railroad and employing about 13,000 workers. The provision against unemployment loss in this plan is one feature of a general insurance scheme covering death, accident, illness and old age.

[1]Henle, James, "A Pension for Workers When the Plant Is Idle," *Printer's Ink*, New York, August 18, 1921, pp. 121–122.

[2]Dickinson, Roy, "When the Men Are out of Work." *Ibid.*, September 1, 1921, pp. 83-84.

It is based on a contract between the railroad company and a commercial insurance carrier by which the company at its own expense insures for a flat sum of $500 each the lives of all employees who have been on its payrolls two years or more, and also bears part of the cost of such additional insurance covering death, disability and illness as their employees may wish to take out in groups, the cost of such insurance being thereby lowered for the individual worker.

The unemployment provision in connection with this plan is as follows:[1] The company will undertake directly to insure against unemployment resulting from dismissal for any cause, all employees who have been continuously on the payroll for two years or more, assuring payments of $15 per week for six weeks, or for so much of that time as a discharged employee may be unable to find employment, on the condition that such employee has subscribed for and contributed toward the cost of at least two of the three forms of insurance provided under the group plan. Employees whose average wage for the preceding two years has been less than $1,000 will receive $10 weekly unemployment benefit under similar conditions. The risk on which the unemployment compensation is based is the labor turnover experience of the company during the two years preceding January 1, 1922. Up to June, 1922, 85% of the employees of this railroad system had taken advantage of the plan adopted the first of the year.

This provision for unemployment insurance is prompted by a desire of the company to provide continuous employment under conditions as favorable as possible, to provide greater ease in the condition of employment by freeing the employee from anxiety, and to secure and maintain the most highly successful operation of the property, which is obtainable only through interested cooperation.

This plan, so far as is known, is the first undertaking of private unemployment insurance on an extensive scale and a commercial basis. It is an experiment, but if successful it may prove possible of wide extension. Since the unemployment provision is limited to those who undertake at stipulated rates two other forms of insurance, it may be considered that the employee bears at least part of the cost for the protection

[1]Statement of the President of the Delaware and Hudson Company to all Employees, January 1, 1922. See also, "Unemployment Insurance Plan," *The Survey*, January 14, 1922, p. 596.

against idleness. This protection, along with the other insurance, may be obtained for a minimum rate of about $2 per month, and may, therefore, be deemed to be within the reach of a larger number of workers in this establishment than would be able to make the provision without assistance from the company.

Conclusion

In this chapter it has been shown that in the United States in normal times there is a considerable body of wage earners without employment, a proportion of whom may be presumed to be in need of relief from the losses entailed in the stoppage of earnings.

It has also been shown that the proportion of wage earners thus without work is considerably larger in the United States than in the industrial countries of Europe, and that the available means of relief by voluntary effort are much fewer in the United States than abroad.

The possibilities of preventing a large part of this involuntary idleness have been indicated in a general way, and a number of plans inaugurated in particular industrial establishments have been described. Of the latter it may be said that, although as yet they cover so small a percentage of the industrial workers of the country as not to have greatly affected the amount of relief available against unemployment, they indicate the possibility of successfully bringing private initiative to bear on the problem of reducing and relieving the contingency of unemployment in a variety of ways suited to the special requirements of groups of workers or industries. The indications are that the scope of such effort is wide; that there exists an increasing sense of the problem of unemployment as an industrial responsibility; and that as the technical methods of applying provisions for relief and preventive devices are worked out, their cost may be reduced and distributed so that the worker bears some part of it. Most of these measures are essentially relief measures, the cost of which is assumed by the employer in proportion to the degree of responsibility accepted. They appear to have been successful as the cost has been reduced through the simultaneous cultivation of preventive measures and the careful systematization and organization of the relief.

VI

THE BASIS FOR PUBLIC UNEMPLOYMENT INSURANCE

The discussion in the preceding chapter leads to the second major question in connection with the relation of unemployment insurance to conditions in the United States, namely: assuming that the status of the wage earners and the development of private cooperative relief measures at the present time indicate a definite need for more extensive protection against unemployment in this country, have these private efforts been worked out fully enough to afford an adequate basis for a public system of insurance, without undue cost? What would be the probable cost of such a system under present conditions? Is a system of publicly controlled insurance the best means of providing the necessary measures for the relief and prevention of unemployment?

As has been seen, the development of public unemployment insurance in Europe has been essentially an extension of private cooperative relief systems for the purpose of making them more comprehensive. This extension has been possible either as the private systems have determined, stabilized and reduced the risk to a point where large scale provision would be economically practicable, or as the sense of social responsibility has been strong enough to lead the public to assume part or all of the increased cost which might be involved in such extension. The question is whether these conditions for the development of public unemployment insurance exist in the United States.[1]

[1]It has sometimes been claimed that when public insurance against industrial accidents was first established in the United States there were not available the data said to be necessary for the establishment of actuarially safe rates for compensation insurance and that the stable basis necessary for the economic application of the insurance principle to the accident contingency has been developed through experience. This is not true and the conditions are not comparable. Before workmen's compensation laws were adopted in this country, employers had carried insurance against the losses to which they were subject under the laws of employer's liability. When accident compensation took the place of employers' liability, these commercial companies still carried the risk and their rates were fixed according to their previous experience. Adjustment of rates has come subsequently, both as the result of efforts to reduce the risk, which has reduced the rates, and of the increasing numbers to whom compensation must be paid, which has increased them.

In any case, data regarding industrial accidents would be more definite and more easily obtained than data regarding unemployment. Industrial accidents are of fairly constant frequency and do not vary according to time or locality, and the fact of injury or death can be definitely ascertained. Unemployment, on the other hand, is subject to great variations due to diverse and complex factors which change from time to time and from place to

Insurance of every kind, everywhere, has been economically applied to any contingency in proportion to the refinement of the determination of the risk as between occupations, classes and individuals covered. With regard to unemployment, this is extremely difficult to do in any country. The unemployment risk varies not only with large external conditions and with seasonal influences, butalso among localities, industries and separate establishments, among classes of workers and among individuals. Certain industries are more intimately dependent on world economic conditions or on domestic seasonable demands than are others. Small plants, with smaller reserve resources and less ability to transfer workers from one department to another or to apply other preventive measures, are perhaps more constrained to adjust themselves to productive variations by laying off workers than are large corporations with varied output and opportunity for the shifting of operatives. Skilled workers in certain trades are less liable to unemployment than unskilled workers in general, and, finally, personal characteristics of some individuals make them more susceptible to idleness or change of employment than others.

European experience shows that the trade union organizations and public labor exchanges, as well as fairly reliable and comprehensive information on unemployment, have afforded the basis needed to determine, stabilize and reduce the risk of unemployment, and that the development of such public insurance as has thus far been adopted is dependent on the improvement of this basis.

The trade unions have not only afforded information as to the varying risks of unemployment in different trades, but in the administration of their own relief funds they have made use of their knowledge of local employment conditions to place workers and to prevent malingering. They have been able to do little toward the stabilization of employment where its fluctuations have been due to causes beyond their control, but

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place, and experience has shown that the definition of the risk to be insured is accomplished only through complicated and expensive administrative machinery.

Definite and refined figures representative of the risk of unemployment in different industries in different parts of the United States are not available from past experience, nor would their acquisition be possible under an insurance law until after a sufficient period of time had elapsed to take account of the complete business cycle. For this reason, rates would necessarily be very high for a long time in a system of public unemployment insurance to cover current costs and build up a safe reserve.

by the operation of public labor exchanges, unemployment as a result of ignorance of where work exists has been reduced. As a consequence, the relatively smaller labor reserve in Europe, both for each country as a whole and for special industries, has been more accurately determined than is the case in the United States.

The Risk of Unemployment

The labor reserve to which unemployment insurance might be applied in the United States is admittedly indeterminate, both as to size and composition; it is highly variable and, so far as can be estimated, is much greater than in Europe. It may, consequently, be considered as neither defined nor as reduced to a minimum. Comprehensive, classified data on the unemployment risk for the United States as a whole or for separate states or sections, or for industries or trades is lacking. The expanse of the country, the localization of industries, the large agricultural population, make it more difficult to obtain such basic information here than in any European country of industrial importance. The trade union organizations in the United States cover a smaller proportion of the industrial field than they do abroad, and have not themselves developed to so high a degree as those abroad the measures for determining and reducing the unemployment risk.

Employers' efforts to determine and stabilize the risk of unemployment in this country thus far do not afford comprehensive information. The relief measures described in Chapter V indicate, however, that in special, small and localized industries the unemployment risk may be reduced to a rate far lower than the general normal unemployment rate in all industries combined. This suggests the possibilities inherent in private effort for this purpose, and that in the United States, where labor is not organized to a high degree, and where the majority of industrial establishments are small, the task of determining, stabilizing and reducing the unemployment risk to a point nearer that achieved in Europe before public insurance was introduced, is peculiarly a task to be approached through the individual industrial employer.

As employers study their specific unemployment problems, as trade unions grow and perfect their organization for collecting information, as public cooperative effort, through the federal

government, the states and local communities, systematizes the statistical data regarding the unemployment rate, and as all of these agencies cooperate to reduce, relieve and stabilize unemployment, the insurance risk will be determined and reduced and thus brought within the sphere of the economic application of the insurance principle. At the same time, of course, the scope of application of public insurance will be greatly narrowed and the need for public insurance will be more clearly specified and diminished or, perhaps, eliminated entirely. In proportion as this is done, the cost of such public insurance as may be needed can be more accurately gauged. The degree and character of the risk within the various industrial groups, already protected in some measure, will be more closely determined and the risk in unprotected groups will be separated from the general risk. The funds necessary for the establishment of an adequate margin of protection may thereby be reduced to a safe minimum, making possible an economic relation between rates and benefits, and lightening the burden of cost for the maintenance of the system.

The experience of Great Britain illustrates how difficult it is to secure a sound basis for public unemployment insurance even where conditions are favorable. The British system was established on such actuarial data as existed, which were far more adequate than are found at present in the United States. Yet it was deemed advisable in Great Britain to build up a reserve fund during prosperous years so that there would be a large surplus for a period of depression.

This precaution proved wise but inadequate in an emergency and, as already noted, in the exceptionally severe depression of 1920, 1921 and 1922 it was necessary to readjust rates and benefits in an effort to protect the unemployment fund from exhaustion. This readjustment of rates and benefits in Great Britain, where the Minister of Labour has power to make the change, was a very simple matter compared with what would certainly be the procedure in this country because of the nature of our legislative machinery.

The application of insurance to the unemployment contingency, as it exists in normal years in the United States, at present must logically contemplate the establishment of an even larger reserve fund than in a country where the basis was more secure and fundamental. It would, therefore, require

the assumption of a larger relative cost on the part of the group bearing the burden, and, in view of the fluctuating and uncertain basis, imply even more frequent readjustments of rates and benefits than have been found necessary in Great Britain.

If for instance, the gross normal unemployment rate in the United States be taken as 12% for industrial workers as a whole, the unemployment fund would require a minimum provision of about $768,000 per day to insure a benefit rate of 50 cents per day for each worker who might be unemployed. If larger benefits were paid and, in addition, public effort were to be made to determine and reduce the risk through the collection of information, the establishment of labor exchanges and the adoption of measures to prevent malingering, all of which are part of the plan in Great Britain and for which the private basis is not found here, the administrative costs also would be proportionately higher in the United States than abroad, where the burden has already become well-nigh unbearable.

Insurance and Efficiency

The question of whether the basis for the application of public insurance to the unemployment contingency in the United States is such as to make it economically feasible raises two other questions in relation to its cost. First, is the situation in the United States such that the direct cost, whatever it may be, might be offset and justified by indirect benefits? This is a question to which no determinate answer can be given without going back to the previously discussed question of the economic status of wage earners in the United States and to the complex question of the economic and social effects of reduced buying power and poverty. Theoretically, a system of public unemployment insurance in which the burden is largely borne by society as a whole or by a special group involves no economic gain for the community as a whole, since what takes place is merely a transfer of funds and a distribution of the total purchasing power. There may, indeed, be a loss involved in such distribution since a portion of the buying power distributed is eaten up in the cost of administration.

There is, of course, a clear gain to society in the maintenance and improvement of the incomes and buying power of a large part of the population in so far as industrial stagnation is

prevented, but the social benefits involved in removing the burden of unemployment from society and industry are not in question. The problem here is whether freeing the wage earner in some measure from anxiety, through the assurance that provision is made for him in time of possible distress, is indeed an actual gain to industry and society, and whether this sense of security could be brought to enough workers, who would otherwise labor under reduced productive efficiency through their inability to provide such assurance for themselves, to make the gain of sufficient importance.

On this point there is little conclusive evidence. As has been indicated, certain employers who have adopted plans of relief more or less of an insurance character have asserted their belief that productive efficiency has been increased as a result of them, although the plans were in all cases so interwoven with other features for promoting welfare and regularizing production as to make it impossible to say how much of the observed improvement had been due to the unemployment relief itself. One employer indeed observed a slackening of interest on the part of some employees when steady employment was guaranteed.

It may be said, in general, that the risk and provision for relief of unemployment is at best only one factor of many which influence productive efficiency of the workers. Under economic conditions where the risk of unemployment is small and labor is in demand, there may be a tendency to slacken in efficiency according to the character of the individual and the looseness of management. Where the risk is high and jobs are scarce there may also be a tendency to "string out the job" on the part of the worker if management is not scientific and economic. This tendency may be indirectly fostered by the management if the burden of providing for laid-off workers is placed directly upon it by a public insurance plan. In short, the control of productive efficiency remains chiefly in the hands of management under all conditions of risk and whatever may be the provision for relief from unemployment. In case a system of provision for unemployment relief tends to lower efficiency either on the part of the worker or the management, the remedy devolves upon the management. If, on the other hand, a high risk of unemployment and lack of provision against it makes for high labor cost, efforts on the

part of management to reduce the risk may lower the cost. The control by management over productive efficiency may, however, be much greater where the provision against unemployment is entirely within his control than where it is controlled to some extent by outside authority.

The Control of Unemployment

This leads to another question in relation to the cost of the application of public insurance to unemployment in the United States. The economic application of public insurance, as has been said, implies that the risk be reduced to a determined, fairly constant minimum. Granting that this condition is not existent at present in the United States, is the situation here such that public insurance would be likely cumulatively to reduce its own cost by reducing and stabilizing the risk and controlling the relief measures to meet it, or at least would it be more likely to do this than would private cooperative effort?

On this question also there is little basis for conclusive judgment to be found in practical experience so far. It has been indicated that the public insurance plans developed abroad have functioned on the basis of a risk determined, stabilized and reduced to a far greater degree than is the case in the United States at present. They have, therefore, not been able to demonstrate such striking results in the reduction of unemployment as might be possible in a country where the initial risk is high, variable and undetermined. It is noteworthy, nevertheless, that the legislation and administration of these plans embodies certain measures to control the risk, such as provision for labor exchanges and for strict surveillance of the worker. Failure to provide premiums for encouraging continuity of employment have been found to be one of their most serious defects.

The elaboration of public insurance abroad has been largely in the direction of establishing greater control over the risk, but its accomplishments indicate the difficulty of achieving such control by forces external to the plant, the industry or the trade union organization. Public insurance abroad, in the course of its development, has had more and more to rely upon private cooperative control over the unemployment risk, and has aimed to supplement such control rather than to replace

it. In short, such plans have been successful in controlling the risk just so far as the task has been made easy for them by appealing to private cooperation.

The task of control assumed by any scheme of public insurance adopted in the United States at present must necessarily be greater. The territory to be covered is larger, the distribution of industries is wider, the variations in them are more diverse, the average unemployment risk is much higher than in Europe, and private effort to stabilize employment has not gone so far in this country as it has abroad. The facilities for distribution of labor, which form a necessary part of any attempt to cope with the unemployment problem, are still rudimentary and chaotic in the United States, and the task of establishing adequate machinery of this sort, whether with or without public insurance, would be an immense one, considering the field to be covered.

Insurance of any kind is not inherently a preventive of the contingency it seeks to relieve and becomes so only as the plan and its administration include specific preventive requirements, or as they offer an incentive to the insurer or insured to reduce the risk by placing the burden of relief in accordance with the responsibility. If society as a whole is willing to assume the responsibility of providing relief for any contingency, whatever its cost, the incentive to reduce the risk is diffused and the preventive force of any social insurance scheme becomes dependent on specific legislative measures, which are difficult of enforcement and likely to be costly. On the other hand, if the burden is placed upon or assumed by special groups in accordance with an accurate estimate of the responsibility, the incentive to reduce the cost and therefore the risk comes more actively into force.

In short, the question whether public insurance applied to unemployment would tend cumulatively to reduce its own cost by preventing unemployment depends on: first, whether the sense of social responsibility or the general social attitude are such as to make the cost a matter of secondary interest; second, whether the responsibility and the burden are allocated so as to give an incentive to reduce the risk; and, third, whether specific preventive measures are included in the plan and prove to be effective.

We are thus brought to the final specific question in relation to the general question as to whether an adequate basis exists in the United States for the economic application of public insurance to the unemployment contingency, namely: is the sense of social responsibility and the general social attitude in the United States such that the public would be willing to undertake public unemployment relief, regardless of the economic drawbacks to the plan; and if so, can the responsibility and the burden be so allocated as to reduce the direct cost by regularizing employment, and to avoid indirect costs by being justly and evenly distributed?

The argument is frequently advanced against public insurance in the United States that it is contrary to the American spirit and temperament, with their emphasis upon individual freedom, responsibility and self-help. There is, however, no means of estimating the sense of social responsibility in a group, depending as it does on innumerable intangible factors, such as political development, education, religion, etc. So far as the United States is concerned, there is probably nothing inherent in public opinion which would hamper the acceptance of social responsibility for any necessary and desirable end. American development and institutions, however, have doubtless tended to emphasize the desirability of meeting problems and contingencies by individual or private cooperative effort, and also to lead the public to question the cost of social measures and demand that the cost be distributed according to the responsibility and the benefits derived.

This is especially the case with respect to unemployment relief. The contingency in question is, as has been said, so indeterminate, variable and high, the possibilities of determination, stabilization and reduction of the risk are so relatively untested, and individuals and private organizations have as yet so little accepted the responsibility of reducing the risk and making provision for relief that the public is inclined to question the high cost of public relief implied in its present application and to emphasize the need of a more economic basis for it in private cooperative effort toward prevention and provision.

Thus, the tendency in the United States apparently would be to approach the problem of meeting the unemployment con-

tingency from the constructive rather than the palliative point of view, to attempt to reduce and stabilize the risk by giving an incentive to private individual effort in this direction, and to apply public measures of a relief character only after private and public preventive measures had exhausted their possibilities and had laid a foundation for a reasonably economic operation of public insurance.

The present problem in connection with public unemployment insurance in the United States, therefore, in contrast with that abroad, is not whether social responsibility is adequate to the assumption of an irreducible burden of necessary relief, but whether public measures can distribute the responsibility and the burden of relief now demanded, so as to give an incentive to private effort to reduce the amount of unemployment and stabilize the risk. In consequence, as will be noted in the next chapter, such public insurance legislation as has been proposed in the United States with regard to unemployment has been aimed at prevention rather than relief.

Political Responsibility: The use of public insurance for expressly preventive purposes in relation to unemployment in the United States involves a number of considerations arising from the situation in this country. In the first place, the American political system requires that, without constitutional amendment, social legislation of this character be developed by the separate states rather than by the federal government. The size of the country, the wide distribution of industries, and the consequent difficulty of setting up the necessary administrative machinery and labor exchanges on a nation-wide basis would, however, alone be sufficient reason for enforcing this sectional development of such measures. A system of public unemployment insurance, if developed on a national scale, would, in addition, necessitate great dispersion of responsibility. Furthermore, the application of the preventive incentives to meet the varying industrial character of the separate states and other differences in conditions, and the consequent burdens upon groups in the various states would necessarily differ widely. Any allocation of responsibility for unemployment by a national law would, therefore, not only be inherently difficult, but would lead to resistance on the part of certain sections and states, and if enforced, might

unfavorably influence the distribution of industries and of labor supply.

In consequence, it would seem that in the United States the allocation of responsibility for the relief of unemployment must rest largely upon the initiative of the separate states. Here, in turn, similar difficulties would arise. Employing groups in one state burdened with the responsibility and cost of the prevention and relief of unemployment might feel themselves at a disadvantage in competing in national markets with similar employing groups in other states not so burdened. Certain industries inevitably more subject to seasonal fluctuations than others in the same state might feel that an undue responsibility was placed upon them if all were required to make the same provision for unemployment.

From an administrative point of view, there is the important consideration that employment opportunities are not fixed by state boundaries and that, both in the placement of workers through labor exchanges and the administrative details involved in paying benefits, jurisdictions would differ and legal requirements also. The free movement of labor, so necessary for the effective manning of the country's industries and for the continuous employment of the workers, would thereby be seriously hindered.

Finally, whether legislation be contemplated on a federal scale or whether it be left to the separate states, the constant shifting of administrative officers resulting from the American party system would argue little for the effective development or efficient administration of a system of public unemployment insurance.[1]

Industrial Responsibility: From an industrial point of view the question inevitably arises as to how the responsibility for determining the *bona fide* character of unemployment, and for reducing it, shall be distributed as between the employer, the labor organizations, the individual and the state. In the United States, where the territory covered even by a single state may be large, where there are few public labor exchanges or none at all, and where the labor organizations have developed little

[1]An investigator for the United States Bureau of Labor Statistics calls attention to this handicap to the effective administration of American workmen's compensation laws and cites an instance of one state where in ten years there have been seventeen industrial commissioners. Hookstadt, Carl. "Comparison of Workmen's Compensation Insurance and Administration." United States. Bureau of Labor Statistics. Bulletin No. 301, Washington, April, 1922, p. 5.

machinery for distributing labor, where their control over the working class as a whole is small, where the worker can secure many kinds of temporary employment, where his temperament makes him unused to public control and where the employer is accustomed to freedom in hiring and discharging his employees —the administrative difficulties involved in the determination of responsibility are greater, relatively, than in Europe.

These leading aspects of the basis for the economic application of public insurance to unemployment in the United States may be more clearly grasped when the legislation which has been proposed to meet them is examined. This will be done in Chapter VII.

Conclusion

The difficulties inherent in the adoption of a system of public unemployment insurance in the United States under existing conditions are numerous and most serious at the present time. The risk of unemployment among American wage earners is still not known with any degree of definiteness, but such figures as are available indicate that, compared with other industrial countries, the rate is very high and probably by no means reduced to a minimum. Such being the case, the financial basis which would be required for an actuarially safe insurance system in the United States would involve an enormous expense. On the other hand, inasmuch as in other countries, apparently, the basis for a system of public insurance has been laid in privately organized cooperative relief, which does not exist in any form to any extent in this country, it appears that the next step toward the reduction of unemployment and provision for the risk in the United States lies in the extension of existing enterprises in this direction or in the development of new plans based on individual control.

Strength is lent to this conclusion by the fact of the peculiar political organization of the United States, which requires that such matters as social welfare and industrial organization be reserved to the states for regulation and control. Assuming, however, the elimination of constitutional difficulties, the problem of this country's vast extent, diversified industries and social composition would make the organization of unemployment insurance on a national basis an administrative problem of gigantic proportions. The classification of risk, establishment

of labor exchanges or other agencies for the placement of workers, the settlement of claims and of disputes, as well as other problems connected with the administration of an insurance law on so vast a scale as would be required for the United States as a whole, would entail a machinery so complicated as to be practically unwieldy from the standpoint of efficient operation.

If, on the other hand, the administration of such a law were left to the separate states, a new series of difficulties would arise of which the most important perhaps would be the probability of forty-eight separate kinds of legislation, assuming that each state adopted unemployment insurance of some sort. Since the existence of employment in this country does not depend on internal political boundaries, the complications arising from attempted cooperation among the states in the placement of workers and adjustment of compensation would likewise present administrative problems of a very serious character.

When to these difficulties is added the fact that there does not exist here either a well-functioning system of labor exchanges or the complete organization of well-defined groups of wage earners, or an extensive system of unemployment relief schemes instituted in individual establishments or industries, even an approach to the problem of devising a system of public unemployment insurance in the United States is surrounded with difficulties.

VII

PROPOSED LEGISLATION FOR UNEMPLOYMENT INSURANCE IN THE UNITED STATES

In the preceding chapter it has been indicated that the unemployment risk in the United States, in comparison with that in Europe, is so undetermined, variable and high, and that the American industrial, social and political organization is so complex that, taken in connection with the American emphasis upon individual initiative, the prevailing sense of social responsibility would probably be inadequate to support the high cost necessarily involved in applying public insurance to such a risk in this country. Public opinion has, therefore, tended to stress the desirability of attempting to reduce the risk through private and public cooperative efforts, and the application of the insurance device in this country has been contemplated chiefly from this point of view.

The movement for social insurance is of late and restricted development in the United States in comparison with Europe, and has always met with strong opposition from large groups of both employers and organized labor. The only form of social insurance to attain any wide adoption in the United States—accident compensation—has developed in the direction of preventing the risk, and has depended for such success as it has achieved largely on private incentive to reduce industrial accidents, with a minimum of state participation and interference. After ten years of operation of the workmen's compensation laws in the United States, there seems to be a growing dissatisfaction with them and a feeling that they fall far short of success, not so much because of weakness in the principle itself as because of inherent administrative difficulties. As regards unemployment insurance, even among supporters of the principle there are few advocates of the application of the British or any of the continental systems here, while among labor organizations and employers very wide opposition exists to the adoption of any form of compulsory public insurance against unemployment.

The reason for this attitude is the conviction that no such legislation can effectively prevent or relieve the unemployment contingency, because the regularization of industry depends almost entirely on private organization and initiative among both employers and workers. Employers, while admitting that unemployment may be regarded as to some extent a charge on industry, are opposed to the allocation of that responsibility by political authority. Moreover, while they may accept the burden of prevention, they refuse to assume the burden of compensation without previous or simultaneous effort to reduce the risk. Labor organizations oppose compulsory insurance as inevitably extending the control of the state over the worker, making him rely less on his union for protection against unemployment, and generally weakening the power of the organization.[1]

In consequence, public opinion in the United States relating to unemployment and such legislation as has been proposed to meet the contingency have developed in the direction of (a) providing relief through public works,[2] (b) encouraging the extension of trade union and employers' relief activities, and (c) providing an incentive to employers to prevent unemployment by compelling them to insure workers against idleness in specified amounts.

The legislation now pending in the United States for unemployment insurance is chiefly of the last type. A bill introduced into the New York State Assembly by a Socialist assemblyman in February, 1921, and never reported out of committee, contemplated a comprehensive system of social insurance covering accident, illness, unemployment, old age and death.[3] This was for the most part modeled on the European systems of social insurance, except that the funds were to be localized; but there is little expectation that it will ever receive strong support.

In the same month an unemployment insurance or compensation bill was introduced into the legislature of Wisconsin,[4] and has been in process of amendment since. It will come

[1]Cf. Gompers, Samuel. Address before the Annual Meeting of the National Civic Federation, New York, January 22, 1917. Reprint.

[2]Cf. Senate Bill No. 2749, introduced by Senator Kenyon, November 21, 1921, in 67th Congress, First Session, and Reports of Permanent Committee on Unemployment, Washington, D. C.

[3]State of New York. In Assembly. No. 849. February 21, 1921.

[4]State of Wisconsin. In Senate. No. 122S. February 4, 1921. Amended May 3, 1921, May 20, 1921, May 26, 1921, June 1, 1921, June 2, 1921 (twice). See also, Commons, John R. "Unemployment." *The Survey*, October 1, 1921, pp. 5–9.

up for consideration again at the legislative session in 1923. This bill has received wide discussion and support, and bills similar to it or based on it were introduced into the legislatures of Pennsylvania in March, 1921,[1] and of Massachusetts in January, 1922.[2] The Pennsylvania bill was referred to the Committee on Insurance and the legislature will not reconvene until 1923. In Massachusetts, an investigating commission was appointed to study the entire subject and report in 1923. The differences between the Pennsylvania and Massachusetts bills and the proposed Wisconsin legislation will be noted in outlining the latter. For the most part the Pennsylvania bill followed the original Wisconsin bill and, unless otherwise indicated, may be regarded as substantially the same.

The Wisconsin Bill

The essential features of the original Wisconsin bill and amendments offered in 1921 are as follows:

Persons Included: The wage earners to be covered by the proposed act include all persons 16 years of age or over, employed by another person, firm or corporation having three or more employees, including non-residents and helpers or assistants of employees, except those employed by farmers or canneries, those whose income from any source exceeds $1,500 a year, those who depend ordinarily on others for a livelihood or those who have an income of $500 or over from other sources than their work. Amendments offered later strike out the requirement that the employer have working for him three or more persons, make the act inclusive of farmers, canneries and public service corporations, and remove the income limit specified in the original.

The Massachusetts bill applies to wage earners 18 years of age or over, having an income of $1,560 a year or less, except those whose income from any source other than their own efforts exceeds $500 a year, or who are mainly dependent on some other person for their livelihood, those employed by common carriers engaged in interstate or foreign commerce, masters and seamen of vessels engaged in such transportation, farm laborers or domestic servants, workers employed by the state

[1]Legislature of Pennsylvania. File of the House of Representatives. No. 1100, Session of 1921. March 21, 1921.

[2]The Commonwealth of Massachusetts. House No. 278, January, 1922.

or any political subdivision thereof. Farm workers in general are not excluded nor are employees in canneries.

Conditions of Benefit: Benefits in Wisconsin would apply to all workers of those classes who are out of work more than three days, except those who are discharged because of fault of their own or leave voluntarily without "reasonable cause" or are involved in a strike or lockout, or are in prison or workhouse. The act would exclude from benefits any worker deemed by the administrators to have refused an offer of work for at least equal wages or on conditions at least as favorable as his usual employment or to which he could travel at a cost not greater than the compensation to which he might be entitled up to the date of the offer of employment.

Wisconsin already has a system of free public employment exchanges and the proposed unemployment insurance act provides for pre-payment by his last employer of a worker's railroad fare to other districts, up to the amount of compensation to which the jobless worker is entitled. Benefits are not to be denied because the worker refuses to take a job made vacant by a strike or lockout. The employee, to receive compensation for lost time, must have registered according to requirements at one of the public labor exchanges.

A later amendment would not bar from benefits anyone who refused to take a job in another district regardless of the wage offered, if the conditions were deemed less favorable, while another amendment provides that a worker may be considered unemployed, even though he has secured another place, if this temporary position does not pay more than 75% of his usual wage.

The Massachusetts bill provides for a waiting period of six instead of three days before beginning payment of benefits. Otherwise the provisions regarding eligibility are as in the unamended Wisconsin bill.

Rate of Benefit: According to the original Wisconsin bill, such unemployed workers are to be entitled to receive $1.50 for each day of unemployment, beginning with the fourth day (half of this amount for those between 16 and 18 years of age), payable weekly, in the proportion of one week of compensation for every four weeks of service, and for not more than thirteen weeks in one year. The rate might be changed by the administration

in accordance with changes in the general cost and standards of living, and other conditions as described below.

Later amendments change the rate to $1 (or 50 cents) a day and provide that during the first three years of the operation of the act, benefits should be paid for only six weeks any year; that compensation should not be paid for any temporary shutdown of less than a month, due to fire, flood or like causes, or to making repairs or taking inventory, and that in seasonal industries compensation should be paid only on account of such unemployment as occurred beyond the usual seasonal period. Seasonal trades and the customary period of unemployment in each would be determined after hearings by the State Industrial Commission. In addition, employers would be required to pay the state an amount equal to one-tenth of its unemployment payments to workers, to cover the cost of maintaining free employment offices and administering the insurance law.

The Massachusetts bill would make the rate of compensation $1.50 a day, or 60% of the worker's daily average wage during the last thirty days of employment, whichever sum may be the lesser, and would limit compensation in 1923 to three weeks, in 1924 and 1925 to six weeks, and thereafter to thirteen weeks in any one year. No provision is made for changing the rate to meet changing living conditions.

Insuring the Risk: Compensation for unemployment in Wisconsin is to be paid by the worker's last employer upon the order of the deputy in charge of the employment office, to whom claim for compensation must be made, and must not be deducted from wages or collected from the employee directly or indirectly. In the original bill it was required that the employer should insure or otherwise provide for such payments in a manner similar to that prescribed in the workmen's compensation law of the state, except that if it was desired to organize a mutual insurance company, it was required that there be at least two hundred employers, covering at least 5,000 separate risks. Thus, in the original bill, the employers were permitted to select their own insurance carrier. All such employers, however, were required to be members of a bureau established to classify and study unemployment risks, apply merit rating systems to them either by establishments or industries and assist the compensation

insurance board and the companies in determining, stabilizing and reducing the risk.

A later amendment did away with the optional feature of selecting carriers for the risk and provided instead for the creation of an employers' insurance company in which each employer was required to insure his liability unless he could prove his financial ability to carry the risk alone. This company was to be under the supervision of the state industrial commission, the commissioner of insurance and the compensation insurance board, but was to be so organized as to represent all the employers involved and to serve their interests in relation to the unemployment insurance scheme. It is proposed that this company have authority to do all the things originally intended to be done by the bureau established to classify and study unemployment, apply systems of merit rating, etc. This alteration of the method of insuring the liability was prompted partly by the desire to remove the profit incentive involved in commercial carrying of such insurance, partly to provide a larger and more flexible reserve fund, and partly to give employers a further incentive to reduce unemployment by controlling the cost of insurance themselves.

This revision of the bill also provided that within three years after its adoption as law, the periods for which compensation is payable might be reduced if the reserve fund of this employers' mutual company were to fall below such reasonable ratio to the net liability as might be considered to endanger the solvency of the company.

The Massachusetts bill follows the original Wisconsin bill in providing that the employer may insure his liability with any commercial insurance carrier, subject to strict control by the state, as in workmen's accident compensation insurance. The compensation for unemployment is to be paid by the insuring company or through the state commissioner of insurance, who may require the insuring company to deposit with him adequate funds to provide for such payments. The Massachusetts bill also provides for systems of merit rating and rebates to individual establishments on the basis of their unemployment experience.

Administration: The administration of the Wisconsin act ultimately would be in the hands of the state industrial commis-

sion, working with the commissioner of insurance. The commission would appoint an unemployment advisory board of employer and employee representatives to assist in the administration, and deputies to administer the act in the employment districts. Disputed cases would go from the deputy to the commission, with final right of appeal to the Dane County Circuit Court.

The original bill provided that the insurance plan should not go into effect until the industrial commission had determined by investigation whether unemployment existed or was serious enough to endanger the welfare, health or morale of the public. The amended bill reverses this provision and requires that the act should take effect thirty days after the industrial commission had determined upon investigation that employment conditions were improving.

In the original bill it was required that each worker carry a book or card to be turned in at the public employment office upon his taking a job in the district. On this book the deputy was to record the length of employment, compensations, etc., somewhat as under the British system. This administrative provision was omitted from later amendments and the matter of administration was to be left to the determination of the industrial commission and the advisory board.

The Massachusetts bill similarly provides for the administration of the unemployment insurance law by the department of industrial accidents, through the machinery provided in the workmen's compensation act of the state. Employment districts and free labor exchanges are provided for. The act would go into effect the year following its adoption.

The Pennsylvania bill if adopted is to be administered by the Department of Labor and Industry, and otherwise follows the provisions of the original Wisconsin bill, before amendment.

The Theory of the Wisconsin Bill

The general theory on which this proposed legislation is based may be summed up as follows, from a description of the Wisconsin bill by John R. Commons of the University of Wisconsin, who is said to have been responsible for its conception:[1]

[1]Commons, J. R. "Unemployment" *op. cit.*, *The Survey*, October 1, 1921, p. 8.

"These theories and practices [with regard to unemployment relief] in Europe have been based upon the idea, first, that unemployment is something that can not be prevented, that it is something inevitable, and that, this being the case, a philanthropic system to aid working people when out of work should be established; second, that the state should both contribute to the fund and operate the insurance business. The Huber bill, introduced in Wisconsin, abandons the idea that the state can operate the system successfully or that the trade unions can operate it. It starts on the idea that the modern business man is the only person who is in the strategic position and has the managerial ability capable of preventing unemployment. In other words the system proposed is exactly like that of the workman's accident compensation law. . . . A mutual insurance company is created, operated, and managed solely by the employers. . . . The employers establish their own premiums, supervised by the state insurance board; they pay out the benefits to the workmen exactly as they pay out the benefits under the accident compensation law. The only difference is that instead of the doctor who cures the man of accidents, the bill provides an unemployment officer who finds the man a job. The system avoids what might be called the socialistic and paternalistic schemes of Europe. It is the capitalistic scheme. It avoids the socialistic scheme, in that the state does not go into the insurance business; it avoids the paternalistic scheme in not paying out relief for an inevitable accident. It induces the business man to make a profit or avoid a loss by efficient labor management."

The three main causes of unemployment, Commons says, are labor turnover, the seasons and the credit system. The first is relatively unimportant and can be allowed for by a waiting period before reckoning unemployment, and in any case can be reduced by managerial effort. The seasonal fluctuations also can be allowed for, as in the building trades, by higher wages during the busy season, and much can be done to stabilize production if management be given sufficient incentive. Insofar as over-expansion of credit leads to depressions and unemployment, the business man and the banker can control credit and will do so if an insurance liability is placed on the business man against the day when he lays off workmen. Every additional worker employed during a period of business expansion would then create a liability against the employer, which would tend to make the banker restrain the granting of credit for such expansion without corresponding effort on the part of the employer to stabilize his working force.

Where, despite all efforts of management and despite the influence of banking control, fluctuations or cycles necessitate reduction of working forces, the labor exchanges provided would assist in distributing workers; but if the liability for unemployment is put upon the management, the latter would tend not to rely on public effort alone to place workers, but rather, in connection with the development of better personnel work within the plant, would create its own organization for finding outside jobs for laid-off employees, for whose continued idleness,

due to possible defects of the labor exchanges, he might otherwise have to pay. Unemployment thus is made a direct charge on industry and business, and to reduce this burden management will endeavor to control lay-offs resulting from labor turnover, seasonal variations and over-expansion, by developing better personnel methods, better organization methods and by efforts to place workers when it may be necessary to decrease working forces.[1]

In addition to the administrative problems discussed in Chapter VI, the problems raised by this type of projected legislative effort to meet the unemployment contingency in the United States relate to the need, the basis, the cost and the effects of such public compulsory measures.

As to the need of such relief from the worker's point of view, enough has been said to indicate that some form of cooperative effort on a more comprehensive scale is probably necessary in the United States to meet the problem of unemployment in a constructive way. In all states the private, cooperative and public means of providing relief, permanent or emergency, seem inadequate to meet the high rate and large volume of unemployment, and the private cooperative efforts at prevention have not attained an extent sufficient to reduce appreciably the need for public cooperative effort in this direction. Public sentiment, however, is as yet averse to the assumption of social responsibility for purely relief measures, and the sense of individual responsibility is not yet strong enough to lead to the wide establishment of private measures. There would seem, therefore, to exist considerable scope for the stimulation, through public agency, of private effort for compensation and prevention. The exercise of public power to this end in ways that tend to encourage private initiative, that do not put too great or unjust a responsibility on any social group, and that give an incentive to all groups concerned to reduce the risk of the contingency and the cost of the relief, may lead to the development of more effective private cooperative measures for minimizing and stabilizing unemployment and for providing for whatever may be the necessary labor reserve.

Measures of the type of the Wisconsin bill are said to be aimed directly to fill this need. How adequately are they likely to do so? They allocate the responsibility where it is most

[1]Commons, J. R., "Unemployment," *op. cit.*, *The Survey*, October 1, 1921, p. 6.

evident and largest—on industry. They are designed to give this responsible group an incentive to devise preventive measures, and at the same time to enable them to control in large measure the cost of the compensation. They place part of the responsibility on the state through the establishment of labor exchanges. The incentive to make these function adequately is not upon the state, however, but upon the employer, who cannot directly control them and can only be moved gradually to reduce the state's responsibility in relation to them by developing similar institutions of his own.

Such legislation, moreover, does not directly encourage the assumption of responsibility on the part of the individual workers or the trade unions, upon whom it should partly rest, and who, indeed, according to their own spokesmen, desire to assume it. Trade union efforts toward provision of relief and prevention of unemployment have not developed very far in any state of this country. There would seem, therefore, to be need for incorporation in such legislation of some means whereby, as in all insurance legislation abroad, incentive is given the workers themselves, through their own private cooperative efforts, to distribute workers and provide relief. It is doubtful whether any legislation which does not allocate to the workers a part of the responsibility and which does not provide an incentive for the development of all forms of private enterprise toward relief and prevention, can be considered adequate to its purpose or as economical as it might be.

A further question arises in connection with the adequacy of such legislation to meet the need. Commons has pointed out that the compensation fixed by the bill, which was lowered in the amendment from $1.50 daily to $1, was set at a figure barely sufficient to guarantee the worker's rent, the implication being that thereby a considerable incentive would be left the worker to find employment or to engage in private cooperative efforts to supplement the public relief. It is obvious, however, that the flat rate of benefits would have a different effect on different workers, according to their customary wage. For some it would be relatively meager; for others relatively sufficient. The worker's power in the direction of finding work, moreover, is limited, since the responsibility, according to the conception involved in the legislation, is chiefly the employer's, and if the relief afforded for those who cannot remedy their

condition is confessedly inadequate, the problem of ameliorating the conditions of distress and poverty associated with unemployment among a portion of the workers will still remain. It may well be asked whether it is economical to set up a large organization so vitally affecting industry and the workers and controlling their activities, if it does not provide adequate relief for the percentage of workers inevitably out of work under however efficient application of preventive measures; and whether such relief could be provided by larger benefits without greatly overburdening industry or producing malingering. Would not the preventive intention of the legislation be more simply and directly realized by some system of direct unemployment taxation, since this is what the legislation is actually designed to effect and what it would amount to in practice ?

The question next raised by the proposed form of legislation is whether it provides sufficient basis, or means of developing such a basis, for the economical application of the insurance principle to unemployment in the United States. The law would launch the employers of the state into a mutual undertaking of unemployment insurance, which has hardly been tried as yet to any extent by any agency in the United States.

Commercial insurance companies have not undertaken to carry unemployment insurance, except, as noted in Chapter V, in connection with extensive plans for other forms of insurance. The reasons for this are doubtless that the necessary actuarial basis in a determined, stabilized and minimum risk is not safe enough as yet to make the undertaking financially feasible, much less profitable, and that the difficulties inherent in the problem of determining when a worker is unemployed because of lack of suitable work have not yet been surmounted. The employer's mutual insurance company, as provided for in the Wisconsin bill, removes the profit element, but it seems probable that for a time—at least until employers are free to apply and have applied preventive measures—the insurance cost must inevitably be a high one. The provision for an experimental period of three years, in which the financial soundness of the mutual fund may be gauged and secured by changes in the benefits, indicates that the basis for economical application of insurance to the unemployment contingency is admitted to be as yet uncertain and inadequate.

The Wisconsin bill further recognizes the existing inadequacy of the actuarial basis and attempts to improve it by providing for a system of free labor exchanges. Until these have functioned for a while, have kept satisfactory records and have thereby determined and stabilized the risk, and until employers have developed their own methods of stabilizing and reducing the risk and have determined its character in the various industries through the work of the mutual insurance company, it is likely that the reserve fund of the company will have to be very large and the insurance premiums necessarily high and often readjusted to the character of the risk in individual establishments. It is expected that this will be accomplished in the three years experimental period provided for in the bill.[1]

If, as has been pointed out, the basis for economically applying the insurance principle to unemployment is inadequate as yet even in single states, it is far more inadequate for the country as a whole. The task of developing an economical basis, through labor exchanges and through cooperative efforts of employers to adjust the risk, naturally will be lighter in some states than in others. At best it would be so difficult that such legislation would have to be applied state by state, since the larger the territory covered, the more complicated would be the administrative machinery, the greater the cost and the more difficult the determination, stabilization and reduction of the risk. Some states are so intensely industrial and some are characterized by so large a number of seasonal and casual workers in agriculture and lumbering, that the application of any uniform system of unemployment insurance would be impossible. In some states the basis for such a system might be wholly lacking. The administrative machinery necessary for determining the suitability of employment would seem of necessity to be both elaborate and costly.

If this be true, the question arises whether even more specialized application of the principle involved in this legislation might not be desirable, from the point of view of reducing the risk and thus the cost, both on the insurance side and on the administrative side. It remains to be determined through experience, regardless of the reduction of the risk, whether the cost to the employer would be greater or less when the insurance was carried by individual commercial carriers selected by him,

[1]The Wisconsin accident compensation law also originally provided for an experimental period for the determination of the risk.

as provided in the Massachusetts bill, or by a comprehensive mutual employers' company, as in the Wisconsin bill; and further, how the cost of either form would compare with the cost of provision made by the employer himself voluntarily through his own funds.

Since the employers' mutual unemployment insurance company would cover only a single relatively high risk, it would seem to involve a relatively higher cost than would be necessary with the commercial carrier, which would presumably carry a more widely distributed risk. But from the point of view of reducing the risk, this high cost implied in the employers' mutual company might offer an additional incentive to determine and stabilize unemployment.

Correspondingly, a greater incentive to reduction of the risk would seem to be natural if the employer were compelled to cover his individual risk by his own fund, as is the case in the system of employment guarantees in the Cleveland garment industry. The individual employer can determine and control the risk in his own establishment more accurately and successfully than anyone else, so that, in the long run, the cost of insurance might be lower for him, if carried individually, than if he were to contribute to a general fund including many employers with widely varying industrial conditions and consequently varying risks and varying possibilities of stabilizing and reducing them. The incentive to reduce unemployment in his own plant would seem to be greater if each employer benefited in proportion to his own preventive activities rather than through a rebate from a common fund.

This is a matter which can be determined only by experiment. It is clear, however, that if compulsion were exercised upon all employers to make such individual provision, it would necessarily involve unduly high costs to certain employers subject to high risks over which their control is limited. From this point of view the distribution of the burden over a group with varied risks might be necessary.

This consideration of the basis and cost of such legislation for unemployment insurance as has been proposed in the United States leads to the question of its possible effects on industry generally, on the workers and on the consumer.

Effects on Industry

The proposed Wisconsin and similar legislation calling for compulsory public insurance against unemployment contemplates that employers upon whom payments for unemployment are an obligation will put into effect methods like those outlined above,[1] for controlling and stabilizing their output, and will also develop private means for distributing labor supply. In so far as production is stabilized and maintained, there will, of course, be a clear gain to industry through reduced overhead, improved organization and improved working forces, against which, if carried far enough, the insurance cost might not weigh heavily.

The question is, however, whether the proposed legislation would actually operate to offer an incentive to or exercise a compulsion upon the employer to stabilize production, rather than to take other means of providing for the unemployment obligation. The attempt to lessen unemployment in Great Britain by a system of rebates directly proportioned to the steadiness of employment in individual establishments was abandoned after a few years. There may be a tendency, especially when the insurance is carried by a commercial carrier, for the employer to protect himself rather than the worker, and to do it through the insurance rather than through stabilized production; or the insurance penalty, if it falls directly upon the employer, may move some employers to maintain working forces even where such maintenance might not be economical from the point of view of the industry. The cost of unemployment compensation, on the other hand, may conceivably be less than that of maintaining full-time operation. Employees thus laid off would receive relief, it is true, but the question has been raised elsewhere as to whether this relief is adequate, and in any case the legislation is aimed to conserve employment rather than to relieve distress. In any industry, therefore, the question of employment or unemployment would be dependent on the relative cost of operating the plant and of insurance, of paying full or part wages as against paying a small fraction of these amounts as unemployment compensation. Whether the incentive offered by this choice is great or small depends on the character of the industry and conditions in the particular establishment. It is possible that the insurance plan might prove to be only an

[1]See p. 76 ff. of the present report.

additional tax on industry, without compensating gains to the workers.

This suggests the consideration mentioned above,[1] that the burden upon industries within the state and upon the same industries in different states might be unequal, and tend, therefore, to make costs higher in one industry and state than another, thus restricting normal competition between the same industries in different states. Industries on the margin of production in a state might thus be forced out of business or compelled to move, and seasonal industries subject to inevitable fluctuations of employment might find operating conditions better in one state than in another. On the other hand, as employers put into effect the methods available for stabilizing production and reducing labor turnover, their production costs might be so decreased as a result of the unemployment insurance incentive as to improve their competitive position in relation to manufacturers in the same industry in other states.

The special effect upon industry, suggested as possible by Commons, namely, that the unemployment liability might tend to restrain over-expansion of credit and so assist in preventing cyclical depressions, is problematical. Developments involving large increases in the working force are not usually financed through local bank credit but rather through the sale of bonds or other securities. Bank credit is normally confined to providing for current needs, such as purchasing raw materials, carrying stock, making plant improvements and other developments not necessarily involving changes in the number of employees. In the underwriting of security issues special attention to the liability arising from an increase in the working force would tend to be given largely in individual cases, where the industry was a marginal one or market prospects were unfavorable. Besides, the importance of the extra liability contracted by an expansion of the labor force would have to be taken into consideration, and this depends on the difference between the constant insurance cost and the possible industrial liability for compensation. For instance, under the Wisconsin proposal, with each new employee hired the employer would incur an additional possible liability of $90 in a year, but the cost of insurance against this liability might be only 4% or 5% of the payroll, or for each worker between $40 and $50 annually.[2]

[1]See pp. 99-100 of the present report.
[2]Cf. estimate of cost in private insurance funds and other plans, p. 76 ff.

For the most part, bankers are dependent on local industrial loans for their profits, and during a period of general nation-wide business expansion would hardly be likely to retard credit expansion in one state solely because of the single factor of increased liability due to growth of working forces, though this might be done during small seasonal or other fluctuations or in the case of individual establishments. The net effect would probably be only to maintain stricter control over credit in seasonal industries and to demand greater security in cases of the weaker or marginal industries.

In short, the chief effect upon industry of the proposed system of unemployment insurance would be felt in industrial states where the products are highly competitive. Such industries, if unable to effect compensating economies or to shift the insurance cost in some way, would necessarily operate under lower profits than similar industries in other states.

Effects on Workers

As to the effect of the plan on the individual workman, it is unlikely that the small direct relief afforded would set a very high premium on avoiding employment by those whose customary wages were far higher than the unemployment pay. On the other hand, those whose wages were lower might prefer not to work but to get along as best they could on their compensation. This malingering might be checked to a large extent through the control placed on the workers by the public labor exchanges, and by such means of labor placement as the employer might be led to develop. The possibility of a worker being discharged, without compensation, for inefficiency would offer an incentive to better work while employed. His compensation even if laid off without fault of his own, depends, moreover, on his length of service. Since the emphasis is eventually upon the employer's stabilization of production, in so far as this is effected, the worker's security of employment, if he is efficient and of good intention, is increased. The three-day waiting period allows for an amount of normal labor turnover and provides therefore for maintaining a certain reserve of casual labor, but the effect of the legislation in the long run would probably be to reduce the amount of casual employment for longer periods than three days. Moreover, if a larger burden were put on seasonal industries, the dovetailing of employment

in these industries through the organized efforts of employers would be encouraged.

Finally, whether the insurance tax would be shifted to the consumer and affect prices depends largely on the competitive character of the individual industries. Industries chiefly with a local market might tend to shift any extra cost, while those with national markets might not be able to do so and might try to recoup their losses by higher prices in the local market. Where economies were induced by the legislation, and production was stabilized, the consumer might benefit by more stable or lower prices.

Conclusion

Such legislation for public unemployment insurance as that projected in the Wisconsin bill of 1921 and others based on it is aimed directly to promote individual effort at determining, stabilizing and reducing the unemployment risk. It therefore differs in principle from all of the European systems. It is expected that this will be accomplished through placing the entire cost of unemployment on the employer, who is not included in the Ghent system at all, and in Great Britain shares the cost with the workers and the state. Its administrative features are likewise different in that, being non-contributory on the part of the workers, there is no unemployment fund, and the employers are allowed a latitude in the method chosen to insure that during periods of unemployment compensation shall be paid to their employees. The British plan of flat-rate benefits was adopted in the Wisconsin bill, although modified in that proposed in Massachusetts, rather than the distribution implied in the continental systems where benefits differ among the different unions or the different industries somewhat in accordance with both customary wages and the unemployment risk. The measure fails, as do the European systems, to give each employer the full benefit of whatever saving he may effect through a reduction of his own unemployment rate, although it is thought that fear of failure to obtain financial aid for business purposes if he over-expands will tend to create caution in this direction.

The cost and effectiveness of the proposed legislation depend on the extent to which, in practice, unemployment is relieved thereby. This success is in turn dependent on the extent to

which similar methods are adopted in other states and over the country as a whole. Such extensive adoption would, however, imply nation wide legislation, which would be of great practical difficulty and of extremely great cost. The question remains whether the stimulation of private cooperative efforts to reduce unemployment, which seems to be the next step in meeting the problem, can be more economically and effectively achieved by legislation compelling insurance than by some other means.

VIII

GENERAL SUMMARY

Unemployment is at all times an industrial problem of first importance in the United States, and experience with various forms of public unemployment insurance abroad has raised the question whether some form of such insurance can or should be adopted as a means of meeting the unemployment problem in this country.

Insurance, in general, is a form of financial relief provided to meet certain of those uncertainties which affect individuals or groups, through contributions to a common fund, based on estimates of the probability that the contingency will affect the group insured and made in proportion to the amount of benefit they are entitled to receive if they are so affected. Social insurance is a form of insurance which results from joining the principle of social responsibility with the principles of insurance and so applying them as to subsidize the earnings of a special group. This subsidy is made on the assumption that the income of the insured, averaged over a given period, is either inadequate to enable him to provide for the contingency which reduces his earnings or that he does not so provide if he is able to do so. It assumes that this emergency arises from conditions beyond his control and that the responsibility for its relief and prevention, and therefore the cost, should be borne partly or wholly by some other group such as industry or by society as a whole. As a cooperative financial relief measure social insurance falls somewhere between pure mutual aid insurance and public charity, never based strictly on the principles of individual insurance and frequently disregarding them altogether. Unemployment in modern society is a special form of interruption of earnings due to circumstances with which the individual wage earner is for the most part powerless to cope. It would, therefore, seem to be a contingency to which social insurance might properly be applied.

According to the theory of insurance, the economic application of the insurance principle to unemployment requires (1) that the risk of unemployment for the group covered be

relatively constant, definitely determinable and reduced to a minimum, (2) that the cost, when determined on the basis of a constant risk arising from causes beyond the control of the worker, be distributed so as to give an incentive for its further reduction.

The problem of unemployment insurance from a practical point of view, therefore, is one of deciding whether the unemployment contingency may be more definitely prevented and provided for at less cost and with more equitable distribution of the burden by means of public insurance than through some other form of cooperative effort toward prevention or relief. This involves the specific questions regarding the extent to which other forms of cooperative relief or prevention are available; to what extent it is possible to determine, stabilize and reduce the average risk; and to what extent the direct costs and benefits can be distributed so as to be equitable and so as to tend toward a reduction of the contingency.

The development of cooperative unemployment relief and preventive measures in all countries where such measures have been tried indicates (1) that they have grown up in correspondence with an increase in the frequency and seriousness of unemployment, with the recognition of the inadequacy of individual provision for relief and an increasing sense of social responsibility, (2) that the private cooperative measures have served as a basis for social measures, (3) that these private measures have become insurance measures to the extent that the cost could be diminished through reducing, stabilizing and determining the risk, (4) that public or social insurance systems have been developed out of private insurance measures so far as the latter have proven inadequate or excessively costly from the insurance point of view and so far as the sense of social responsibility has led society to assume part or all of the burden and distribute it over certain groups, and (5) that, finally, these social insurance measures have proven successful from the insurance point of view to the extent that their cost has been diminished by limiting their scope and determining, stabilizing and reducing the risk through assisting private cooperative efforts, through basing their actuarial features on the experience with these private efforts and supplementing them by special measures such as labor exchanges.

The development of cooperative provisions for relief against unemployment shows three evolutionary stages: (a) voluntary mutual benefit schemes, (b) subsidized voluntary schemes, (c) compulsory state insurance.

The voluntary cooperative measures such as trade union benefit funds and friendly society aid have been accepted for many years in England and certain other countries of Europe as a means of meeting unemployment contingencies, but they have not developed to any great extent in the United States. The advantages of such systems of mutual aid are that they spring from the voluntary initiative of groups of workmen whose risk of unemployment is approximately equal, and that within a narrow area they may serve to reduce unemployment and malingering. They fail generally because of the relatively small number of workmen reached, because they afford no incentive to industrial forces which might assist in improving employment conditions, because the field for placing members out of work is limited and, finally, because their cost is relatively high and their financial or contractual basis insecure.

The inadequacies of purely voluntary unassisted cooperative relief schemes for meeting unemployment have led to various forms of public subsidy of such schemes, viz., public cooperative relief funds and public subsidies to private associations.

The municipal funds subscribed either by public or private organizations to relieve the distress from unemployment among workers who also contribute to the same fund have not been a success because they have attracted unfavorable risks, the cost has been very high and the solvency of the funds insecure. They have not enlisted the cooperation of the employing group and have afforded relief to only a small proportion of local workmen in seasonal trades.

Public subsidies to workmen's benefit funds have overcome some of these difficulties because they have been based on a more calcuable risk and the solvency of the funds has been maintained through the assistance of the public treasury and by means of public regulation. The weakness of this system is that unorganized workmen have received little or no benefit from it and that it has not taken into account the employer as a factor in the unemployment situation, but has relied only on such efforts as the labor organizations could make to secure employment for their members. These features have greatly

strengthened the position of the union workers. These defects led to the introduction of a form of universal compulsory insurance through a state fund.

Compulsory insurance against unemployment exists in Great Britain, Russia, Austria and Italy, and is under consideration in Belgium and Germany. The British system, put into operation in 1912, was the result of careful study of the subsidized voluntary plans and developed out of earlier attempts to meet the problem of unemployment through Poor Law relief and through labor exchanges. The British system, in contrast to continental unemployment insurance systems, was devised primarily to provide relief for regular unemployment instead of abnormal unemployment in emergencies. It was designed to bring protection to organized and unorganized workers alike and so to distribute the risk among as large a group as possible as to make the cost small in relation to potential benefits. Its cost was also allocated so as to include both employers, employees and the state. It was established on an actuarial basis afforded by trade union unemployment records and was designed to promote the accumulation of a reserve to tide the fund over bad years.

The British unemployment insurance fund became exhausted in 1921 and has involved a large drain on the public treasury since that time, largely because of three circumstances: (1) the acute business depression which caused sudden and long unemployment of large numbers, (2) the inclusion immediately prior to the beginning of the industrial depression of eight million workers not previously insured who drew benefits after making only a few contributions, and (3) the provision for payment to insured workers of special benefits without corresponding contributions, in order to relieve the distress of those who had exhausted their rights to benefits. The system, though possibly financially sound in relation to normal unemployment, proved inadequate under the stress of extreme emergency; it has done practically nothing to stimulate efforts for reduction of unemployment by employers, employees and the state, and the administrative machinery has been found extremely costly. Improvements in the administration of the system, particularly as related to the labor exchanges and the payment of benefits, are under consideration. It is doubtful, however, how much the system could have reduced unemployment,

because it was adopted after practically every other method of meeting the problem of unemployment had been tried and because unemployment in normal years had probably nearly if not quite, reached a minimum.

The question of the adoption of a system of public unemployment insurance in the United States involves two specific questions: is there need for such a system here, and does an adequate basis for the economical application of the insurance principle to unemployment exist in this country?

The studies of the Board show that there is in the United States in normal times a considerable body of wage earners without employment, a large proportion of whom may be presumed to be in need of relief. Accurate knowledge of the extent to which unemployed workers are able to provide for themselves in individual or cooperative ways is, however, lacking here. The extent of the need for systematic relief cannot, therefore, be fully known until more adequate information exists in regard to unemployment, wage conditions, standards and costs of living, differences in seasonality of industries and savings of wage earners.

Studies by the Board have shown that much can be done by individual employers and coordinated industrial effort to reduce unemployment, and some progress in this direction has been made. Although the plans inaugurated in particular establishments cover as yet so small a percentage of the industrial workers of the country as not to have greatly affected the general unemployment contingency, they suggest the possibilities of bringing private initiative to bear on the problem in a variety of ways suited to the special requirements of different groups of workers in industry. They indicate that there exists an increasing sense of industrial responsibility in relation to unemployment and that as technical methods of providing relief and preventive devices are worked out, the cost may be reduced and in time the workers may bear some part of it. The private measures so far used to meet the unemployment problem are for the most part relief measures and appear to have been successful as the cost has been reduced through the development of preventive features and the systematization of the relief in accord with actuarial principles.

The private efforts of employers, trade unions and other organizations to provide for or prevent unemployment have

not as yet, however, developed to an extent sufficient to afford an adequate basis upon which to build a system of public insurance in the United States. The unemployment risk among American wage earners is not known with any degree of definiteness, but available figures indicate that, compared with industrial countries in Europe, the rate is very high and hae not been reduced to a working minimum. The financial basis which would be required for an actuarially safe insurance system in the United States would involve an enormous expense. Furthermore, the political organization of the United States would make the adoption of a national system of unemployment insurance impossible without constitutional changes, and the country's vast extent, diversified industries and social composition would create under such a system an administrative problem of gigantic proportions and cost.

If, on the other hand, a system of unemployment insurance were to be built up by the separate states, the complications arising from an attempt at cooperation between the states in the placement of workers and adjustment of compensation would likewise present administrative problems of great difficulty, especially in view of the probability that the legislation in the separate states would differ widely. In addition to these difficulties is the fact that there does not exist in most states either a system of labor exchanges or comprehensive organizations of wage earners, either one of which European experience indicates as a necessary basis for a public insurance scheme.

In Europe, systems of public insurance have been built up on the basis of privately organized cooperative efforts for relief of unemployment. In this country, not only have the labor organizations not gone so far as they have in Europe toward protecting their members, but experiments instituted in separate industrial establishments here have not been extended as they might to afford a more substantial basis than now exists for public enterprises in this direction. It would appear, therefore, that in this country the first step to be taken toward the reduction of unemployment and provision for the risk lies in the extension of existing enterprise in this direction or in the development of new plans based on individual control.

Such legislation for public unemployment insurance as that projected in the Wisconsin bill of 1921 and others modelled on it, is based on the recognition of the necessity of promoting

individual effort to determine, stabilize and reduce the unemployment risk. On its actual success in achieving this end in practice depend its cost and effectiveness in the relief of unemployment. This in turn is dependent on better knowledge regarding unemployment and on the extent to which similar methods are adopted in other states and over the country as a whole. Such extensive adoption would require nation-wide legislation, but this would be of great practical difficulty and great cost. The final question raised in connection with a proposal for such legislation is whether the stimulation of private cooperative efforts to reduce unemployment, which are necessary to meet the need for unemployment relief and serve as a basis for any comprehensive system, can be more economically and effectively achieved by compulsory legislation than by some other means? In the United States, therefore, the problem of devising such other means is put squarely to industrial management.

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